THE SENATE OF CANADA

STANDING COMMITTEE

ON

BANKING AND COMMERCE

SESSION OF 1926

EVIDENCE OF WITNESSES

ON

BILL 148, AN ACT FOR THE PURPOSE OF ESTABLISHING IN CANADA A SYSTEM OF LONG TERM MORTGAGE CREDIT FOR FARMERS

Hon. GEORGE G. FOSTER, K.C.,
Chairman

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ORDER OF REFERENCE

EXTRACT *from the Minutes of Proceedings of The Senate of Canada, 8th June, 1926*

Pursuant to the Order of the Day, the Bill (148), intituled "An Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for Farmers," was read the second time, and

Ordered.—That the said Bill be referred to the Standing Committee on Banking and Commerce.

First Session, Fifteenth Parliament, 16-17 George V, 1926

THE HOUSE OF COMMONS OF CANADA

BILL 148

An Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for Farmers.

AS PASSED BY THE HOUSE OF COMMONS,
1st JUNE, 1926

1st Session, 15th Parliament, 16-17 George V, 1926

THE HOUSE OF COMMONS OF CANADA.

BILL 148

An Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for Farmers.

HIS Majesty by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

Short title. **1.** This Act may be cited as "*The Canadian Farm Loan Act, 1926.*"

"Board." **2.** In this Act, unless the context otherwise requires,

(*a*) "Board" means the Canadian Farm Loan Board established by this Act;

"Borrower." (*b*) "Borrower" means a farmer who has obtained a loan under the provisions of this Act;

"Commissioner." (*c*) "Commissioner" means the Canadian Farm Loan Commissioner appointed under the provisions of this Act;

"Farmer." (*d*) "Farmer" means any person whose business is that of farming and who owns and occupies a farm, or who proposes to acquire a farm for immediate occupation and cultivation by him;

"Farming." (*e*) "Farming" includes stock raising, dairying and the tillage of the soil;

"Farm Land." (*f*) "Farm Land" or "Farm" means land under occupation and cultivation by a farmer or land purchased by a farmer for immediate occupation and cultivation by him;

"Farm Loan." "Loan." (*g*) "Farm Loan" or "Loan" means a loan made to a farmer under the provisions of this Act;

"Farm Loan bond." (*h*) "Farm Loan bond" means a bond issued under the authority of this Act;

"Minister." (*i*) "Minister" means the Minister of Finance for the time being.

Canadian Farm Loan Board. **3.** (1) There shall be a board, known as the Canadian Farm Loan Board, which shall be a body politic and cor-

porate and shall consist of four members, one of whom shall be the minister who shall be chairman thereof, and the other three of whom shall be appointed by the Governor in Council. One of the members so appointed shall be designated the "Canadian Farm Loan Commissioner," and shall be the chief executive officer of the Board. The Commissioner shall be appointed for such a period of years as the Governor in Council may designate. The other members of the Board shall be appointed in the first instance, one for a period of three years and the other for a period of six years; thereafter appointment of members other than the Commissioner shall be for a period of six years. Any member of the Board shall be eligible for reappointment.

Chairman. *Farm Loan Commissioner.* *Tenure of office.*

(2) The Commissioner shall be paid such salary and the other members such fees as the Governor in Council may prescribe, such salary and fees to be a charge against the revenues of the Board.

Compensation.

4. (1) The Board shall have power:—

Power of Board.

(a) To issue and sell bonds to be known as Canadian Farm Loan bonds, to buy the same on its own account and to retire the same at or before maturity;

Farm Loan bonds.

(b) To make long term loans to farmers on the security of first mortgages on farm lands upon and subject to the conditions hereinafter prescribed;

Long term loans.

(c) To hold real estate which, having been mortgaged to it, is acquired by it for the protection of any loan, and to sell, mortgage, lease or otherwise dispose thereof: provided, however, that any such real estate shall be disposed of within three years from the date on which it is acquired, or within such additional period not exceeding two years as the Governor in Council may fix and determine;

Real estate.

(d) To invest its funds in the debentures, bonds, stocks or other securities of, or guaranteed by, the government of Canada, or of, or guaranteed by, the government of any province of Canada;

Investments.

(e) To employ such assistance and to exercise by itself or through its duly authorized agents all such incidental powers as shall be necessary or expedient to carry on the business authorized by this Act.

Assistants. *Incidental powers.*

5. The capital requirements of the Board shall be provided as follows:—

Capital requirements

(1) The government of Canada shall provide an initial capital to an amount not exceeding five million dollars, to be paid to the Board in such amounts and at such times as the Board may determine. The amounts provided from time to time under this subsection shall be free from interest charges for a period of three years, after which time interest shall be charged at the rate of five per cent

Initial capital.

per annum. Repayment of the amounts so provided shall be made from time to time out of the earnings of the Board; provided, however, that before any such proposed repayment is made the reserve fund of the Board provided for by section nine of this Act, shall be at least equal to the total repayments including the repayment then proposed to be made.

Capital stock.

(2) In addition to the initial capital provided for in the preceding subsection, the Board shall issue capital stock in shares of one dollar each, which capital stock shall at all times equal, as nearly as may be, fifteen per cent of the total farm loans theretofore made and not fully repaid. The said shares shall be non-transferable and shall be subscribed for in the following manner:—

Five per cent of loans subscribed by Government of Canada.

(a) The government of Canada shall subscribe for the said capital stock from time to time as loans are made under this Act to an amount equal to five per cent of the said loans, so that the total amount subscribed under this paragraph shall equal at any time as nearly as may be, five per cent of the total loans theretofore made and not fully repaid, the same to be called for by the Board as required;

Five per cent of loans subscribed by provinces.

(b) Each province of Canada in which loans are made shall be required to subscribe for the said capital stock from time to time as loans are made under this Act in the province to an amount equal to five per cent of the said loans, so that the total amount subscribed under this paragraph shall equal at any time, as nearly as may be, five per cent of the total loans theretofore made in the province and not fully repaid, the same to be called for by the Board as required.

Five per cent of loan subscribed by borrower.

(c) Each borrower under this Act shall subscribe for the said capital stock to an amount equal to five per cent of the sum borrowed by him which stock shall be paid for at the time the loan is made.

Limit of outstanding farm loan bonds.

6. (1) The outstanding Farm Loan bonds shall not exceed at any time twenty times the paid-up capital stock subscribed for by the borrowers in the manner provided in the next preceding section.

Rate of interest.

(2) Such bonds shall be issued at such rate of interest as in the opinion of the Board will make the market value of the bonds at the date of issue approximately par.

Time limit. Denominations.

(3) The bonds shall be issued for such period, not exceeding thirty-five years, and in such denominations as the Board may determine. Provision may be made for the

Redemption before date due.

redemption of the bonds at the option of the Board before their due date, in which case the Board may provide for the payment of such premium as it may deem reasonable.

(4) Each Farm Loan bond shall be signed by the Commissioner, or by a member specially authorized thereunto by the Board, and by the secretary or treasurer of the Board. It shall have printed thereon a certificate by the Commissioner that it is issued under the authority of this Act and that at the time of issue the Board holds first mortgages on farm lands at least equal to the total amount of bonds issued under this Act. Form.

7. Loans made under the authority of this Act shall be subject to the following conditions:— Conditions for loans.

(1) Loans shall be made only on the security of first mortgages on farm lands up to fifty per cent of the Board's appraised value of such lands and twenty per cent of the permanent insured improvements thereon; provided, however, that no one person and no two or more persons having joint or several ownership of the land to be mortgaged shall have by way of loan in the aggregate at any one time more than ten thousand dollars. Mortgages taken as security for farm loans and remedies thereunder shall be in all respects subject to the law of the province in which the farm land mortgaged is situated. First mortgages.

(2) The proceeds of such loan shall be used for the following purposes and no other,— Use of proceeds.

(a) To purchase farm land;

(b) To purchase fertilizers, seed, live stock, tools, machinery and any implements and equipment necessary to the proper operation of the farm mortgaged;

(c) To erect farm buildings or to clear, drain, fence or make any other permanent improvement tending to increase the productive value of the land;

(d) To discharge liabilities already accumulated;

(e) Any purpose which in the judgment of the Board may be reasonably considered as improving the value of the land for agricultural purposes.

(3) Loans under this Act shall be made only to farmers actually engaged in or shortly to become engaged in the cultivation of the farm mortgaged and whose experience, ability and character are such as to warrant the belief that the farm to be mortgaged will be successfully cultivated. Provided, however, that no loan shall be made on the security of unimproved land except for the purpose of making improvements on the same. Loans only to persons engaged in cultivation of farm mortgaged.

(4) The appraised value shall be based on the value of the land for agricultural purposes and as far as possible on the productive value as shown by experience. No other basis of valuation shall be considered. Appraisal value.

(5) The interest rate on loans under this Act shall be such a rate in excess of the interest rate yielded at the time of issue by the last series of Farm Loan bonds issued by the Interest.

Board as shall be sufficient, in the judgment of the Board, to provide for the expenses of operation not exceeding one per cent of the amount of the loan and for the necessary reserves for losses, or if no such bonds have been issued, such a rate as in the judgment of the Board will be yielded by the Farm Loan bonds when issued, increased by provision for expenses and reserves as aforesaid.

Repayment.

(6) Every farm loan shall be repayable in equal annual or semi-annual instalments of principal and interest. The amount of such instalment or instalments payable in any year shall be a fixed percentage of the amount of the loan, such percentage to be the rate of interest mentioned in the mortgage increased by either one per cent or two per cent of the amount of the loan as the borrower may elect.

Interest on defaulted payments. R.S., 1906, ch. 120.

(7) Notwithstanding anything contained in the *Interest Act* every borrower shall pay simple interest on defaulted payments at a rate not exceeding eight per cent per annum and shall agree to pay all assessments and taxes when due and to effect such insurance as the Board may require. Should such taxes and assessment not be paid when due, they may be paid by the Board and charged to the borrower.

Payments by borrower.

(8) Notwithstanding anything in this Act, any borrower may at any time after his loan has been outstanding for five years repay the whole or any part thereof on any date on which an instalment becomes due, and any such payment shall be credited to the borrower in such manner as the Board may by regulation prescribe as hereinafter provided, but no such payment shall relieve the borrower from meeting all subsequent payments punctually as they fall due.

If loan expended for other purposes.

(9) If any borrower under this Act expends any part of a loan for any purpose other than that approved by the Board, the said loan shall become forthwith payable in full.

In case of sale.

(10) It shall be a term of any mortgage taken as security for a loan that upon the sale of the farm land mortgaged the loan shall immediately become due and payable.

When loans available.

8. Loans under the provisions of this Act shall not be made in any province of Canada until notice of intention to commence the making of loans in that province has been given by the Board in the *Canada Gazette*, provided that the Board shall not give such notice until the legislature of such province shall, by enactment, authorize, prescribe or provide:—

Subscription by the province.

(1) The subscription by the government of the province to the capital stock of the Board to the extent of five per cent of the local loans outstanding at any time in that province as such loans are issued;

Provincial boards.

(2) The establishment of a provincial board of five members to act as agent for the Board in the province, three of whom shall be nominated by the government of the province and appointed by and subject to the approval

of the Board. The other two members shall be nominated by the borrowers resident in the province and shall be appointed by the Board in accordance with regulations to be made by the Board as hereinafter provided.

(3) Subject to the approval of the Board whether loans shall be made directly to farmers or through local co-operative societies, or both directly to farmers and through local co-operative societies, as the province may desire. How loans made.

(4) The treasurer of the said province and the chief executive officer of the provincial board to act on the Advisory Council hereinafter provided for. Provincial treasurer.

(5) That farm loan bonds shall be a legal investment for trust funds within the province. Bonds to be legal investment.

(6) That in case of an adverse report on the operations of any provincial board by the auditors of the Board, or should any provincial board refuse to enforce in a satisfactory manner the regulations and directions of the Board, the Board may after conference with the said provincial board relieve such provincial board of its duties and may undertake directly, or through officials appointed by the Board for that purpose, the management of the business of such provincial board until a new provincial board satisfactory to the Board has been nominated and appointed as hereinbefore provided for. Relief of provincial board.

9. (1) The Board shall annually carry to a reserve fund twenty-five per cent of the net earnings of the Board until the said reserve shall equal twenty-five per cent of the paid capital of the Board, and thereafter there shall be carried to the reserve fund at least ten per cent of the net earnings. Reserve fund.

(2) A dividend may be declared annually on the capital stock of the Board when in the judgment of the Board the net earnings of the Board warrant such payment: provided, however, that no dividend greater than five per cent shall be declared until the reserve fund shall have reached the amount of twenty-five per cent of the paid capital stock. Dividend.

(3) After the reserves held by the Board shall have reached the amount stated in the next preceding subsection, should the net income of the Board in any year exceed the amount necessary to meet the requirements of subsection one of this section with regard to further reserve and to pay a dividend of five per cent on the capital stock of the Board, the Board may declare an additional dividend upon the stock held by borrowers. Additional dividend.

(4) All dividends paid upon stock held by any borrower shall remain in possession of the Board and shall be allowed to accumulate at the rate of five per cent per annum compounded annually until such time as the said stock with accumulated dividends is sufficient to provide for the payment of all indebtedness under the loan when the amount Accumulated dividends.

of the said stock and the accumulated dividends shall be credited to the borrower as a final payment. The borrower shall thereupon cease to be a stock-holder of the Board.

If adverse report.

10. In case of an adverse report on the operations of any provincial board by the auditors appointed by the Board, or should any provincial board refuse to enforce in a satisfactory manner the regulations and directions of the Board, the Board may, after conference with the provincial board, relieve such provincial board of its duties and may undertake directly, or by officials appointed by the Board for that purpose, the management of the business theretofore conducted by such provincial board until a new provincial board satisfactory to the Board has been nominated and appointed as hereinbefore provided for.

Advisory Council.

11. There shall be an Advisory Council to the Board consisting of the provincial treasurer of each province of Canada in which a provincial board is organized as hereinbefore provided, and the chief executive officer of each provincial board. This Advisory Council shall meet at least once a year on the call of the minister to discuss the general policy of the Board and the credit requirements of farmers.

Legislation prejudically affecting security.

12. In the event of legislation being passed by the legislature of any province operating under this Act after loans have been made available in that province which, in the opinion of the Board, would prejudicially affect the security of existing or future loans, the Board, by notice to be published in the "Canada Gazette," may cease to make further loans in that province.

Cost of administration of provincial board.

13. The cost of administration of any provincial board shall be a charge against the provision made for expenses of operation under subsection five of section seven of this Act. The salaries paid to all officers and employees of any provincial board shall be subject to the approval of the Board.

Investment by Canadian companies, 1917, c. 29.

14. (1) Notwithstanding anything contained in *The Insurance Act, 1917*, any Canadian company as defined in the said Act, may invest its funds or any portion thereof, in the purchase of Farm Loan bonds, and any British company and any foreign company, as therein defined, may hold the said bonds as assets in Canada for the purposes of the said Act.

Investment by loan companies, 1914, c. 40.

(2) Notwithstanding anything contained in *The Loan Companies Act, 1914*, any loan company subject to the provisions of the said Act, or any of them, may invest its funds, or any portion thereof, in the purchase of Farm Loan bonds.

(3) Notwithstanding anything contained in *The Trust Companies Act, 1914*, any trust company subject to the provisions of the said Act, or any of them, may invest its funds or any portion thereof in the purchase of Farm Loan bonds. Investment by trust companies. 1914, c. 55.

15. The Minister may purchase from time to time, on behalf of the Dominion of Canada, from the Board, bonds issued by the Board, which bonds shall be repurchased by the Board when funds for that purpose become available through the public sale of Farm Loan bonds; provided, however, that the amount of such bonds held at any one time by the minister on behalf of the Dominion of Canada shall not exceed fifteen million dollars. Purchase of bonds by minister.

16. The Board may, subject to the approval of the Governor in Council, make regulations not inconsistent with the provisions of this Act for the conduct of the business of the Board, and without limiting the generality of the foregoing provision the Board shall have power to provide by regulation for: Regulations.

(a) The employment of officers, appraisers, inspectors, attorneys, clerks and other employees and their remuneration;

(b) The charges to be made against borrowers for the expenses of appraisal, determination of title and recording;

(c) The bases of valuation of farm land;

(d) The form of application for loans, farm loan bonds, mortgages, books of account and annual statements of the Board;

(e) The manner of nomination and appointment of representatives of the borrowers on the provincial board in any province;

(f) The manner of crediting advance payments by borrowers under the mortgages;

(g) The auditing and inspection of the accounts and assets of the Board;

(h) The bonding of agents, officers and employees of the Board;

(i) The signing of cheques, transfers, assignments, discharges, deeds, bonds and other instruments of the Board.

17. The amount of any payment by the Government of Canada on account of capital of the Board or as payment for Farm Loan bonds purchased shall be paid out of the Consolidated Revenue Fund on the authority of the Governor in Council. Payments out of the Consolidated Revenue Fund.

MINUTES OF EVIDENCE

THE SENATE,
OTTAWA, FRIDAY, June 11, 1926.

The Standing Committee on Banking and Commerce met to consider Bill No. 148, An Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for Farmers.

Hon. G. G. Foster in the Chair.

GEORGE D. FINLAYSON, Superintendent of the Insurance Department, was called.

The CHAIRMAN read the sections of the Bill, Nos. 2 and 3.

Mr. FINLAYSON: I think section 3 fairly well indicates the nature of the Central Board. It is to be a body corporate. It is to be the functioning body in the system. It will settle the form of the farm loan bonds, and make the loans to the farmers. The final decision as to loans in every case is with the Central Board. Presumably it will be located in Ottawa, but it could be located any place. The Central Board will have the final decision in any matter of administration.

By Hon. Mr. Calder:

Q. Will every application for a loan come to the Central Board?—A. That will be a matter for regulation by the Central Board. If that Board wishes to delegate its powers, as a head office of a company might do, to a branch office, it will be open to it to do so, but finally that must rest with the Central Board; that is the fundamental principle of the Bill.

Q. Suppose a farmer makes an application for $10,000, and that goes to the local board, which decides that the loan should be granted, will the documents and all connected with it be dealt with by the Central Board, who will finally decide whether the loan will be given or not?—A. I will not say that; that might possibly be done.

By Hon. Mr. Black:

Q. The Provincial Board will be, to all intents and purposes, those who will receive applications for loans, and as far as the Central Board has faith in that Board they will make loans without further investigation?—A. I should say that the relations between the Central Board and the Provincial Board will be such as exist between the Head Office and a branch in one of our banks or loan companies.

By Hon. Mr. Tessier:

Q. Is there only one Provincial Board?—A. Yes. Some loan companies proceed on the principle of giving very wide powers to the branch manager who has the confidence of the Head Office; he has probably power to accept finally loans up to a small amount, with the provision that loans of a certain amount must be referred to the Head Office. Other loan companies follow a different plan, and insist on everything coming to Head Office. I should say that the members of the Central Board will practically have a similar discretion.

Q. But the farmer will have to apply to the province?—A. Yes, but the main principle is that the Central Board is the final authority. They are responsible to the people from whom they borrow money, and they have to follow that money through to the very last stage, if they want to do so, subject to such power as they delegate to the branch offices.

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By Hon. Mr. McLennan:

Q. The Provincial Board has 5 members, 3 appointed by the province, and 2 by the borrowers in the province?—A. Yes, and if their services are not satisfactory they may be replaced.

Q. Will that cause friction in the provinces?—A. I do not think so, because there must be final authority some place. Where is it to rest? With the Provincial Board, or the Central Board? The Central Board has the responsibility towards the investing public from whom they are going to get the money.

By Hon. Mr. Dandurand:

Q. The bondholders?—A. The bondholders; the Central Board is going to issue the securities, therefore one thing we have insisted on is that they take the responsibility, and must follow the money to the end.

By Hon. Mr. McMeans:

Q. How are you going to elect two members of the Board by the borrowers?—A. That will have to be worked out by the provinces, in conference with the Central Board. Just before the first loan is made there can be no representative of borrowers, that is clear, and that Board will have to be composed at the outset of the nominees of the province. Then some machinery will have to be provided for nomination by the borrowers of their representatives.

By Hon. Mr. Dandurand:

Q. What advantage do you see in such election or delegation by the borrowers?—A. This is to a certain extent modelled on the American Federal Farm Loan system, under which all the Long-term mortgages made by the Federal Land banks are made not to individual farmers but to associations of farmers. Every borrower wanting a loan from the Federal Land Bank is required to associate himself with other borrowers in local farmers' associations and these associations are represented on the Board of the Bank.

By Hon. Mr. Belcourt:

Q. And take stock?—A. The borrowers capitalize the association to the extent, each, of 5 per cent of the loan that is obtained. That association obtains a loan from the bank on their guarantee and endorsement; they then pass on the loan to the individual farmer.

By Hon. Mr. Tessier:

Q. Will the borrowers of small amounts have the same rights as the large borrower—there will be hundreds of small borrowers.

Hon. Mr. Beique: The answer to your question is that the borrowers are interested in good management, and that they will have to contribute to the losses.

Mr. Finlayson: Every borrower is required to take 5 per cent of the stock in the Board. Now, he suffers by loss in the earning of dividends on that stock. He has a small cooperative interest in the success of the bank. The theory on which this is built, and it is the basis of the theory in the United States system, is that the farmer, having an interest in the success or failure of a bank, should be consulted as to the loans which are made. We adopt that principle. The representatives of the borrowers will be a minority on the Provincial Board, and the majority will be representative of the province which will have invested in this system 5 per cent of the total loans. The province will have a very vital interest in seeing that this system is well conducted and presumably they are not going to be dominated by the minority representation. But even if the Provincial Board had regard mainly to the views

of the minority representatives of the borrowers, we have over that the Central Board which is primarily responsible for the welfare of the system, and they have responsibility to the bondholders and the public.

By Hon. Mr. Calder:

Q. In the United States, in cases where borrowers have right of representation on the Board, has there been any difficulty in securing proper representation?—A. I do not think so. There is no difficulty in getting representation in those associations, so far as I am aware. There has been a complaint on the part of some of the land banks and of the Central Board that those associations tend to become a little bit inactive after the members have secured their own loans; they do not meet very regularly, and some of them fail to hold their annual meetings, but they all have their Boards.

By Hon. Mr. Belcourt:

Q. But is not the whole system in the United States worked out on the cooperative plan?—A. They have that particular branch system, but then they have the other branch, purely joint stock.

Q. Is not that based on the principle of cooperation?—A. Not at all. The joint stock bank in the Federal Loan system there is capitalized by the public, and they make their loans to individuals in the same way as the ordinary loan company. They issue bonds to the public. They are free, very largely, from the restrictions of the Federal Farm Loan Board. Their loans amount at present to about one-third of the total or about $500,000,000.

By Hon. Mr. McLennan:

Q. Do these bonds carry any guarantee of the Government or State? —A. No.

By Hon. Mr. Hughes:

Q. In the United States are the local associations responsible for the payment of the loans?—A. Yes; every loan is guaranteed by the association of which the borrower is a member.

Q. Then is not that the principal reason why the borrowers should have representation on the Board?—A. Yes; I should say so; they have the liability, and therefore they have to see to the management.

Q. The proposed system in Canada is different from that?—A. Only in degree. We have a certain amount of cooperation in this, because no matter what the provinces may decide to do, the farmer must become a paid shareholder in the Board to the extent of 5 per cent. In the United States he becomes a shareholder, actually or potentially, to a maximum of 10 per cent. The association guarantees the loan, and has recourse against the borrowers only to the extent of another 5 per cent of his loan. Now, the association has no assets other than that right of assessment against the borrower, so that the guarantee of the local association really amounts to a guarantee of 10 per cent of the loan.

Q. But the officials of co-operative associations in the United States are all borrowers—the Board above has no representative on the Board of the co-operative association at all, have they?—A. No. Of course the associations are subject to very strict regulations by the National Farm Loan Board; they have to comply with the directions of that Board, and if they are found abusing their powers, for instance, by carrying on their business at an excessive expense, and absorbing too much of the dividends declared by the bank, then the Board has discretionary and disciplinary powers.

By Hon. R. S. White:

Q. Is there anything in the Act to cover this point; supposing only one or two provinces take up this scheme, has the Central Board to be maintained?—A. The Central Board will have to be maintained.

By Hon. Mr. Calder:

Q. The expense of that Board is borne by the Federal Government?—A. No, the expense of the Central Board will be assessed against the system. The money required for paying the expenses of the Central Board can only come out of the interest paid by farmers. There is only one qualification to that—that the initial capital is stated to be free of interest for a period of three years.

Q. So the only contribution by the Central Government, whether the system is adopted in one province or nine, is the interest on the amount loaned to the extent of $5,000,000 for three years?—A. Quite.

Q. And any money so loaned must be repaid to the Federal Government, and must come out of the interest paid by farmers?—A. Yes, out of the profits. In the United States the twelve banks were capitalized by issues by the Government to the extent of $750,000 each. There was capital of approximately $9,000,000 supplied by the Government.

Hon. Mr. TANNER: Is that a gift?

Mr. FINLAYSON: It is repayable out of profits, but free of interest forever.

Hon. Mr. BELCOURT: Is that the reason they have been able to keep the interest rate so low?

Mr. FINLAYSON: It may be one of them, but it is not the main reason.

Hon. Mr. BELCOURT: What would be the main reason?

Mr. FINLAYSON: The main reason is that the farm loan bonds issued are free of all federal, state and municipal taxes.

Hon. Mr. WILLOUGHBY: Seven of those land banks in the States, out of the twelve, have repaid all they owed to the Government.

Mr. FINLAYSON: Out of the $9,000,000 capital initially supplied there is now about $1,300,000 outstanding, and I think a majority of the banks have repaid the entire capital.

Hon. Mr. WILLOUGHBY: On this section Senator McMeans referred to a certain point. Perhaps you would deal with it when we come to that specifically. Your Board cannot function until the borrowers have elected representatives.

Hon. Mr. BEIQUE: There will have to be a change in that. I was going to suggest this. Don't you think it might be provided in the Bill that the representatives of the borrowers would be appointed by the Governor in Council, at any rate until the loans have reached a certain figure?

Mr. FINLAYSON: Until there are a sufficient number?

Hon. Mr. BEIQUE: Until the loans have reached, say, a million or two millions.

Mr. FINLAYSON: I might say that my own view was that that would be provided by provincial legislation. If, however, we want to direct as to what that legislation shall say, I do not see why we should not do so.

Hon. Mr. WILLOUGHBY: How could you do it?

Hon. Mr. CALDER: In regard to representation of borrowers the difficulty I see is this. Take my own province. If this scheme goes into force it is likely to go into effect to a very considerable extent. Take a province 250 miles one way by 350 miles the other way: you have a thousand borrowers scattered all over that province. I doubt very much if the co-operative system would be adopted. We went into that very fully and decided it was not feasible in Saskatchewan at all.

Mr. FINLAYSON: So I believe.

Hon. Mr. CALDER: The chances are it will not be. Now, here you have 500 borrowers scattered all over the province. How in the world will they ever succeed in selecting a proper representative for themselves on that Board? I think

it is the most difficult thing in the world. They will never get together. They can never consult each other. It seems to me that instead of that we should adopt Mr. Beique's suggestion, which is a very good one. The local government would look after that and appoint proper representation for the borrowers.

Hon. Mr. WILLOUGHBY: Give them the power.

Hon. Mr. CALDER: Give the local government the power to appoint some person to represent the borrowers. It is up to them to see that a proper person is selected for that purpose. I think there would be the greatest difficulty in the world in having the borrowers make a selection.

Mr. FINLAYSON: Would that suggestion not mean, or not be equivalent to saying, that the provincial government shall elect the whole Board? They are now going to elect the majority. If you say the Governor in Council of the province shall elect also the representatives of the borrowers, it is equivalent to saying that the provincial government elects the whole Board.

Hon. Mr. DANDURAND: But, Mr. Finlayson, if the province adopted the individualistic system, is there to your mind as great need for the borrowers, who have dealt directly with the Board getting together to be represented?

Mr. FINLAYSON: I think it is very desirable to have the representation of the borrowers on these provincial Boards.

Hon. Mr. TANNER: Could not the provincial government's power to select representatives of the borrowers be confined? Why not compel them to select them from amongst the borrowers?

Hon. Mr. BELCOURT: Provide that the province shall appoint the whole five, two of whom shall be representatives of the borrowers.

Mr. FINLAYSON: I am not as familiar with western conditions as many of the honourable gentlemen. I had assumed that the only practical way of getting these minority members nominated by the borrowers would be by some sort of ballot, which could be sent to the borrowers by mail and returned. Every borrower would have some person in mind, and you could have it that the man who received the greatest number of votes, whoever he is, would be the representative.

Hon. Mr. CALDER: It would take too much time.

Hon. Mr. DANDURAND: I suggest that we should not deal with all the details now.

Hon. Mr. BEIQUE: These details might be considered by a small committee with Mr. Finlayson.

Hon. Mr. TESSIER: You want to treat the borrowers as shareholders and you want them to take an interest in the proceedings.

Mr. FINLAYSON: The borrowers have a very vital interest in the success of the scheme. Because they are going to expect dividends from this 5 per cent, and the amount of these dividends will materially affect the net cost of their loans to them. Now, if you have representation by them you may get a benefit from it—

Hon. Mr. WILLOUGHBY: The individual borrower does not want his name to be known as that of a borrower at all.

The CHAIRMAN: Gentlemen, we will take section 4.

Hon. Mr. CALDER: Just one moment on section 3, Mr. Chairman. There are two points I would like to have cleared up. In the first place, power is taken to appoint a Commissioner for such period of years as the Governor in Council may designate. That is an indefinite period. It may be three years, five years, ten years, twenty years, or fifty years.

Hon. W. B. ROSS: Or for life.

Hon. Mr. CALDER: Should there not be some limitation in that? Again, there is another point in connection with this question. The two other men shall be given such fees as are determined upon. That is, the two other men are not on salary; they are payable by fees. I am not sure whether they should be on salary or not. But what is contemplated in the way of fees for those other members?

Mr. FINLAYSON: The only salaried man will be this Commissioner. He will be the Chief Administration Officer of the Board. The other members of the Board shall be really in the capacity of directors of a board, of a company, and they shall be paid reasonable fees for attendance at the meetings.

Hon. Mr. CALDER: Should there be a limitation of the time?

Hon. Mr. BEIQUE: It may be not exceeding ten years.

Mr. FINLAYSON: I see no objection to a limitation like ten years.

Right Hon. Sir GEORGE E. FOSTER: And they would be eligible for re-appointment?

Mr. FINLAYSON: Yes. If you got a good man it might be a hardship to have to dispose of him in ten years.

Hon. Mr. BEIQUE: Not exceeding ten years.

Hon. Mr. CALDER: Would you have him removable in the same way as the Civil Service Commissioners and other officials?

Mr. FINLAYSON: I think he should be removable for cause—for any misconduct.

Hon. Mr. CALDER: The Board of Railway Commissioners, the Civil Service Commissioners, etc., are removable only by vote of Parliament, not by the will of the Government.

Mr. FINLAYSON: I think the man, if he is doing the business properly, ought to be secure in his position.

Hon. Mr. REID: Now I will give you a case like this. In one of our courts in the Dominion we appoint a man and he is there five, six or seven years and then becomes absolutely incapable of carrying on his work. He cannot be dismissed. He is there practically for life. Now, if you do limit the time, there should be some provision for changing him for good reason—if he is unable to perform his duties.

Mr. FINLAYSON: I take it a man should be removable for cause at any time.

Hon. Mr. DANDURAND: That is a question of drafting. We may leave that to a sub-committee.

Hon. Mr. TESSIER: I suppose the Civil Service Commission would have nothing to do with it.

On section 4—Power of Board.

Hon. Mr. REID: Is there any limit of the amount that can be lent?

Hon. Mr. BEIQUE: That comes further on.

On section 5—Capital requirements:

Hon. Mr. MCMEANS: What is the object in making these shares non-transferable? A man has shares, and he has a mortgage. He sells his farm, subject to the mortgage. He may want to transfer his shares.

Mr. FINLAYSON: The loan becomes payable on sale of the land. The purchaser of course can obtain a new loan. The character of the borrower has something to do with the making of the loan at the outset. Then, if the purchaser is a satisfactory borrower he may come in and subscribe for shares and get his loan.

Right Hon. Sir George E. Foster: And the Government has two obligations: first the $5,000,000, and then the subscription of 5 per cent.

Mr. Finlayson: Five per cent as the loans are made.

Right Hon. Sir George E. Foster: And it gets its dividends equally with other shareholders?

Mr. Finlayson: It gets 5 per cent upon its initial capital after three years, and on its shares it shares the lot of the common shareholder up to a five per cent dividend.

Hon. Mr. McMeans: So, Mr. Finlayson, when a man pays off his loan he gets back the 5 per cent—is that the idea?

Mr. Finlayson: Yes.

Hon. Mr. Beique: Yes, the amount of his subscription is retained out of the loan; so that it is paid.

Mr. Finlayson: Quite.

Hon. Mr. Beique: And then it is credited with interest at the rate of 5 per cent.

Hon. Mr. Dandurand: Yes, the interest that is allotted to him upon that 5 per cent is credited to him on the last payment.

Hon. Mr. McMeans: Then I understand that a man may take a loan, subscribe for stock, and pay off the mortgage at any time?

Mr. Finlayson: After five years.

Hon. Mr. McMeans: Suppose he sells his farm in two years. Then he cannot pay off the loan and cannot transfer his stock?

Mr. Finlayson: He can pay it off, subject to bonus or penalty, as the Board may determine.

Hon. Mr. Dandurand: Mr. Finlayson, will you explain what is your view of the possible advance of that $5,000,000, which is the maximum sum?

Hon. Mr. Beique: Tell us your expectation as to how and when it will be paid.

Mr. Finlayson: That initial capital has two objects: one is, by reason of the waiver of interest for three years, to provide a means of overcoming the inevitably large expense, of organization and operating while the volume of loans is small; the second object is to give security to the bonds. We had to consider different means of giving security to those bonds. In the United States, as I have said, they made them tax-exempt, which is a very great concession. We considered that and discarded it, for the reason that we do not think that is a sound method of financing. Another alternative was for the Government to guarantee the bonds. We also discarded that, because I think we ought to try to get away from these contingent liabilities in our method of finance. We devised this method—

Hon. Mr. Willoughby: Pardon me. Did you consider the propriety of guaranteeing the bonds for a short period, say, five years, until you got going?

Mr. Finlayson: Yes, and we also considered guaranteeing only the interest and not the principal; but we discarded them all, because we do not like the principle. We tried to get security in this way, by providing a substantial initial capital which will give security while the institution is establishing itself in the confidence of investors. My idea is that this $5,000,000 should not have to be advanced to the full extent. I think probably a million dollars might be advanced. That would provide, at 5 per cent, $50,000 a year for interest, which I should think would be quite sufficient to provide for the administration of the Act in the initial years, with the expense provision in the rate of interest charged the borrowers. I doubt very much whether more than a million or two of this amount is ever advanced by the Government.

Hon. Mr. BELCOURT: Will not all that $5,000,000 or $1,000,000, or whatever it may be, be applied by way of reserve or for the payment of losses, if any should occur?

Mr. FINLAYSON: Such amount as is not required to take care of the expense of administration in the early years should be set aside as reserve.

Hon. Mr. WILLOUGHBY: In reference to that guarantee of interest, if the Government have taken the absolute position that they will not guarantee the bonds, then it is useless to discuss it as part of the scheme. I certainly think myself there should be a guarantee for a limited time, in order that people may be able to purchase those bonds as cheaply as we want to sell them, and as they must be sold if the scheme is to function properly.

Mr. FINLAYSON: I think there is an inclination on the part of the Government and, on the part of business men, to get away from this guaranteeing of bonds by the Federal Government.

Hon. Mr. DANDURAND: Mr. Finlayson, will you tell us what will be the situation of those bonds, as to their value, when you have advanced $1,000,000 and you have got mortgages for $1,000,000? For it is on the basis of those mortgages that the bonds will rest. What will be the guarantee to the public? Suppose the Government has advanced such $1,000,000, which has been lent.

Mr. FINLAYSON: The Dominion Government advances $1,000,000 to the Board. That $1,000,000 is used almost entirely to make loans to farmers. Having those mortgages, I should say that the Board would then make an issue on the security of those mortgages, but not more than the mortgages. Therefore, when the investors have made their investments they will have $2,000,000 practically of mortgages for $1,000,000 of bonds; and in addition to that they will have the contingent liability of the Dominion Government on their subscription for the balance of $4,000,000, and the 15 per cent of the loans.

Hon. Mr. WILLOUGHBY: Mr. Finlayson says that in the United States the scheme is quite different, but I can tell you one reason why their bonds sell so low, almost equal to Liberty Bonds. I have a full statement of how they have sold. First, you have twelve banks, as you know, in the United States, and the whole twelve banks guarantee the bonds of any one. Now, we shall have a different position, presumably, if we take advantage of this Act. We shall not be in that position at all. You cannot look to anybody in the way they look to their twelve for a guarantee. And they have a double liability on these associations which are formed under the co-operative system.

Hon. Mr. DANDURAND: Or another 5 per cent?

Hon. Mr. WILLOUGHBY: Another 5 per cent—that is 10 per cent plus the enormous security given by twelve banks scattered all over the United States, from one end of it to the other. And then, of course, they have that tax-exempt feature you spoke about. But they had a security that appealed to the farmer at the inception of the scheme very much more than we can hope to appeal.

Mr. FINLAYSON: You spoke of the double liability of the borrower in the United States. That double liability, as I pointed out, extends only to 10 per cent. Now, we have to take the place of that feature—the 5 per cent paid by the borrower at the outset; the 5 per cent paid by the province; and the 5 per cent paid by the Dominion Government. So that, so far as that margin is concerned, that is in a more favourable position than the bonds of the United States.

Hon. Mr. CALDER: You have 15 per cent in hand instead of—

Mr. FINLAYSON: Instead of 5 actual and 5 contingent, yes.

Hon. Mr. HUGHES: Did I understand you to say as to the $1,000,000 subscribed by the Dominion Government, and the $1,000,000 of loans made to the farmers, and the $1,000,000 of bonds issued, that the bond holders would have any claim in the event of the mortgages not paying the bonds—would have any claim on the money subscribed by the Dominion Government?

Mr. FINLAYSON: To the extent of the full subscription. The Government becomes liable on subscription for $5,000,000.

Hon. Mr. HUGHES: In the event of the mortgages not taking care of the bonds?

Mr. FINLAYSON: Yes. It is in the same position as an ordinary shareholder of a loan company. If the bonds of a loan company go to default the shareholder may have to pay up.

Hon. Mr. BELCOURT: Under the similar systems which have been in practice in Europe, is there in any of these cases a state guarantee at all?

Mr. FINLAYSON: No, sir, except to this extent: in some of these schemes in operation all the funds are supplied by the Government.

Hon. Mr. BEIQUE: Here, under this clause 5, the Government has a guarantee to the extent of the dividend on the amount it has subscribed.

Mr. FINLAYSON: Of 5 per cent after three years.

Hon. Mr. BEIQUE: But the repayment of the capital is very remote.

Mr. FINLAYSON: Contingent on net profits.

Hon. Mr. BEIQUE: Very contingent. It is to be made, it can be made, only out of net profits, and after the payment of the interest.

Mr. FINLAYSON: After the 5 per cent is paid, and the expense of operation, which will be deducted in order to arrive at net profits, then from those net profits 25 per cent must be set aside as reserve; and out of the balance of 75 per cent of the net profits repayment can be made.

Hon. Mr. BEIQUE: It is very, very contingent.

Right Hon. Sir GEORGE E. FOSTER: At the best it becomes a perpetual investment.

Hon. Mr. BEIQUE: I think we may take it that way.

Hon. Mr. DANDURAND: It all depends on the extension of the system.

Mr. FINLAYSON: Quite. In the United States, you see, the capital has already been largely repaid out of the net profits.

Hon. Mr. BEIQUE: That will lead me to put another question later on. Now, I would like to understand what is the bearing of paragraph (*a*).

Right Hon. Sir GEORGE E. FOSTER: How far may we go?

Hon. Mr. BEIQUE: Yes, how far this may go. Suppose that the initial loans amount to, say $10,000,000, which will be paid within thirty years. The Government will have to subscribe 5 per cent of that. Now, will the Government have to subscribe successively 5 per cent of all loans made?

Mr. FINLAYSON: That is the object.

Hon. Mr. BEIQUE: Or should it not be limited to 5 per cent of the amount outstanding at any time?

Mr. FINLAYSON: The wording adopted here is intended to make it clear, so that the total amount subscribed under this paragraph shall equal at any time, as nearly as may be, 5 per cent of the total loans theretofore made and not fully repaid.

Hon. W. B. ROSS: That is, outstanding?

Mr. FINLAYSON: It is not the net amount of principal outstanding.

Hon. Mr. BEIQUE: But not fully repaid?

Mr. FINLAYSON: That is the point. I think it makes it clear, but I do not think it gives it the meaning that you, Senator Beique, think it should have. The meaning is that the amount will have to be subscribed by the Dominion Government for all loans made up to the point where one of the loans, say, is fully repaid: when any loan becomes fully repaid, then it can be used as an offset to a new loan that is made; but up to the time the loans come to be fully repaid, then the subscription by the Dominion Government shall be 5 per cent of the total loans made.

Hon. R. S. WHITE: Besides the $5,000,000?

Mr. FINLAYSON: Besides the $5,000,000.

Hon. Mr. BEIQUE: Would it not be clearer to say that the subscription of the Government shall be equal to the outstanding amount of the loans at any time?

Mr. FINLAYSON: This will provide for maintaining a substantial margin of security even when the volume of loans is very large. As the loans are repaid, the percentage represented by this subscription by the Dominion Government will be somewhat larger than 5 per cent of the total amount outstanding. It increases the margin of security.

Hon. Mr. TAYLOR: How does this increase the security of the bondholders when the Government is a bondholder itself?

Mr. FINLAYSON: The bondholder comes first.

Hon. Mr. BEAUBIEN: Supposing the Government gives $1,000,000. That is loaned, and on the guarantee of that loan bonds are sold.

Hon. Mr. DANDURAND: No, not then; there is another operation.

Hon. Mr. BEAUBIEN: Then that is repaid—

Mr. FINLAYSON: By the borrowers?

Hon. Mr. BEAUBIEN: Yes. Then the guarantee of the Government disappears on the total repaid. I want to know just as soon as a loan is fully repaid under this clause, I understand this 5 per cent disappears on that portion repaid.

Mr. FINLAYSON: It would go to offset a new loan made.

Hon. Mr. BEAUBIEN: Just as soon as that money is reinvested, the 5 per cent operates again.

Mr. FINLAYSON: Yes.

Hon. Mr. BEIQUE: You will have to reconsider the wording of that clause. It is not very clear.

Hon. Mr. DANDURAND: It only decreases if the loans continue growing. If that remained at the same figure, of course the 5 per cent would remain.

On paragraph (*b*)—5 per cent of loans subscribed by provinces.

Mr. FINLAYSON: This is identical with the other.

Hon. Mr TESSIER: Have we got the right to impose an obligation on the provinces?

Mr. FINLAYSON: Section 8 covers that. The province is required to do this itself before loaning operations are commenced in the province.

Hon. W. B. ROSS: Under the American Act, do they take notice of the state at all?

Mr. FINLAYSON: There is nothing in the Farm Loan Act requiring co-operation between the Federal system and the States. The idea was that the Federal system would review conditions in each state and decide whether or not they would enter any particular state. In Minnesota there is now a Federal Land Bank of Minnesota, a state bank operating in active competition with the

Federal Farm Loan Bank. That may arise in other states, and this method of co-operation we have asked is with a view to overcoming the possibility of conflict between the Federal Government and the provinces.

Hon. Mr. CALDER: Has there been any consultation with the western provinces with regard to what is going to happen to their loaning organizations? I understand that in the province of Manitoba they have had a board in existence for some years, and the same is true in Saskatchewan, and they have loaned out something like $15,000,000.

Mr. FINLAYSON: Personally I have had no such consultation, but I understand the Commissioner who reported on this scheme has in mind that if this system works out as it is intended to, some of those provinces at least that have provincial schemes will agree to suspend operations so far as new loans are concerned, and to work in with this scheme.

Hon. Mr. CALDER: There is no understanding or agreement that the whole business will be taken over?

Mr. FINLAYSON: Absolutely not. That would be very dangerous.

Hon. Mr. BEIQUE: This scheme cannot go into any province without the consent of the provincial legislature, so no loan can be made.

Mr. FINLAYSON: What we are trying to avoid is any friction or conflict with the provincial authorities. Some of them are now in possession of the field It is for them to say.

Hon. Mr. CALDER: In what provinces have they long term mortgage schemes?

Mr. FINLAYSON: In Ontario, Saskatchewan and Manitoba. They are the principal ones. They have each loaned in the neighbourhood of $10,000,000.

Hon. Mr. BLACK: What provinces have indicated to the Government a desire for a scheme of this kind?

Mr. FINLAYSON: I could not say. I have had no means of communicating with the provinces.

Hon. Mr. BLACK: I will give it as my opinion that three or four provinces will not take advantage of it; consequently it is discriminatory; you place a burden on some provinces—you set aside $5,000,000 for three years. To that extent you penalize the provinces that do not go in for it.

Hon. Mr. DANDURAND: You are going to the principle of the matter. We have sent the Bill here, and Senator Ross asked that that matter be suspended. I draw attention to the fact that we are all considering the prosperity of agriculture and the question of getting loans to the settlers that we are calling for, and that we need, at 1 per cent cheaper. If we do that, we have done something for them. That is a matter of principle.

Hon. Mr. HUGHES: Is there anything providing that two or more provinces must come in before this commences?

Mr. FINLAYSON: No, sir.

Hon. Mr. HUGHES: Is it advisable?

Mr. FINLAYSON: I should not think so. They may come in gradually. One province might have to make a start; others would follow. I think it would be unwise to impose that condition.

On paragraph (*c*)—5 per cent of loan subscribed by borrower;

Hon. Mr. CALDER: That means that if a borrower asks for $3,000 he will get his $3,000 in full if he pays $150?

Mr. FINLAYSON: In practice he will get $2,850.

On section 6, subsection 1—limit of outstanding farm loan bonds:

Hon. Mr. BEIQUE: May be you will state the reason of this.

Mr. FINLAYSON: The subscription is to be 5 per cent, therefore the bonds will amount to 20 times the subscription.

On subsection 2—rate of interest:

Hon. W. B. ROSS: I do not quite understand that. I suppose if you are going to get the money you will have to give the current rate of interest.

Mr. FINLAYSON: What will that be, sir?

Hon. Mr. BEIQUE: The rate of interest will increase or diminish. I think it is in order to facilitate the rate being diminished.

Mr. FINLAYSON: Yes. We do not want to issue these bonds at a very heavy discount or a very large premium, and we cannot fix the rate. The Board has to size that up. As the system goes on it will increase in the confidence of the investing public.

Hon. W. B. ROSS: Are you going to have a fixed rate at which you put in your mortgages, or are they going to be up and down with the price you pay for the bonds?

Mr. FINLAYSON: We do not fix anything in this Bill, but the Board will fix the rate to go in the mortgage at the outset. That holds for the duration of the mortgage, subject to the right of the borrower to repay at any time. If the rate paid on the bond is comparatively high at the outset, the mortgage rate will be comparatively high at the outset; and if five years later the cost of money is very much reduced and the loaning rate to the farmer very much reduced, many farmers may want to come in and get a new loan.

On sub-section 3—time limit, etc.:

The CHAIRMAN: Will you explain paragraph 3.

Mr. FINLAYSON: The point is this. Supposing the first mortgages have been made at a rate of 7 per cent interest, without amortization. Let us suppose that the rate of interest on the farm loan bonds is 5½ per cent. The farm loan bonds will probably run for 20 years. Later on the rate of interest payable on farm loan bonds is reduced to say 5 per cent, and the loaning rate to the farmers is reduced to 6½ per cent. Now, you can easily imagine that some farmers will want to repay their loans and get new loans at the lower rate of 6½ per cent.

Supposing they all did that, the Board would be in this position. They have their farm loan bonds outstanding for 20 years, bearing 5½ per cent interest; all their borrowers have come in meantime and taken new loans at 6½ per cent; therefore the margin of 1½ per cent is reduced to 1 per cent. Now, we say that the Board may provide in the bonds for an earlier redemption date.

Hon. W. B. ROSS: That would probably affect the value of the bonds on the market.

Mr. FINLAYSON: The Board may provide for the payment of such premium as it may deem reasonable. We must remember that the Interest Act will come in on the cancellation of the mortgage, and will permit the Board to collect a bonus of 3 months' interest that will go to offset the premium that has to be paid.

Hon. Mr. BELCOURT: Have you presumed that there is such an Act in each province?

Mr. FINLAYSON: That is the Dominion Interest Act.

Hon. Mr. TANNER: Will the mortgages be what are called straight mortgages?

Mr. FINLAYSON: No, instalment mortgages. They will have to be repaid over one of two terms—23 years or 32 years.

Hon. Mr. TANNER: Will the payments be monthly, quarterly, or how?

Mr. FINLAYSON: Half-yearly or yearly, and will include principal and interest.

Hon. Mr. BEIQUE: I was going to ask you how the premium would be covered?

Mr. FINLAYSON: It would have to be a charge on expense of operation, but it will be largely offset by the bonus on the repayment of the mortgage.

Hon. Mr. CALDER: You would not be called upon unless a sufficient number of borrowers wished to make new loans, and in that case the bonuses would take care of it to a very large extent.

Mr. FINLAYSON: Yes. This is only a precautionary measure.

On subsection 4 of section 6—form:

Hon. Mr. CALDER: What is the necessity for that clause? "At the time of issue the Board holds first mortgages on farm lands at least equal to the total amount of bonds issued under this Act"? You get your subscription from the Federal Government, say $1,200,000; you loan $2,000,000 on mortgage. Now, under this section you can only go to the public for $1,000,000. You get that $1,000,000 and loan it out; then you have $2,000,000; then you are limited again to going to the public for $2,000,000. Do you think that is necessary?

Mr. FINLAYSON: I think it is very desirable. I think it would not be wise to make a large issue of bonds.

Hon. Mr. BELCOURT: I can understand the purpose of it. It is to give assurance to the public that the law is being complied with.

Mr. FINLAYSON: Yes.

On section 7, subsection 1—conditions for loans:

Hon. Mr. McMEANS: I have a suggestion to make here. The great question is the security for the bonds. Now, in some of the western provinces it is impossible to get a first mortgage, because they have as many as 12 charges ahead of the mortgage. I speak of the province of Alberta chiefly. There are municipal taxes, hospital liens, seed grain, mechanic liens and so forth. I was going to suggest that no money shall be lent in any province unless the legislature of that province will make this mortgage a first lien upon that land, except for taxes.

Hon. Mr. CALDER: It cannot be done.

Hon. Mr. McMEANS: If you could get rid of that one question so that the mortgage would be a first lien on the land, then I think you would have undoubted security.

Hon. Mr. BELCOURT: I thoroughly agree with my honourable friend. That is the greatest difficulty in the way of this scheme. I was discussing it the other day with someone who had had a great deal to do with the Bill, and he assured me that there had been negotiations which were still pending with a view of the provinces waiving—

The Hon. the CHAIRMAN: Is it not a fact that some of those are held by the Dominion Government?

Hon. Mr. BELCOURT: We ought to apply ourselves to finding a remedy.

Mr. FINLAYSON: The suggestion of Hon. Mr. McMeans has been made to myself and to others—that there should be some provision by which all these special liens and priorities should be waived in favour of this scheme. We have taken the position that it is not fair for this system to ask for an exemption or a privilege of that kind which is not accorded to all lenders, private and public alike. We think that anything that is done for this system should be done for all. It is an unfair discrimination in favour of this scheme.

It is not easy to get over this in the way suggested, and for this reason. A great many of the charges mentioned—hospital tax, noxious weeds tax, drainage tax, and so on,—are made liens against the property, but they are imposed

as taxation. Now, any mortgage in any province is subject to municipal taxes, and these special priorities in practically every case take the form of an addition to the municipal tax.

Hon. Mr. CALDER: There is only the seed grain.

Hon. Mr. GRIESBACH: And hospitalization.

Mr. FINLAYSON: And hospitalization can be placed on the tax roll of the municipality.

Hon. Mr. BEIQUE: The Board will take that into consideration in making the loan.

Mr. FINLAYSON: Now, there is the seed grain lien. There are liens both in favour of the Provincial Government and the Dominion Government. So far as I know, those are not imposed in the form of taxes and can be waived if the Governments are willing; but a great many of the other forms of liens and priorities take the form of taxes. No one would say the mortgages should not be subject to municipal taxes, but how are you going to divide up that municipal tax into what is a legitimate charge and what is an illegitimate tax. You would have to analyze your tax.

Hon. Mr. McMEANS: What about this mechanics' lien? I understand that a man can get a mortgage—he has got a first mortgage on the place—and then he can go on and mortgage himself and buy lumber. When you go into Alberta, and perhaps Manitoba and Saskatchewan, your bond is not the first charge, and if you are going to sell your bonds you have to remove those liens as to seed grain and other charges that may be enacted by Provincial legislation?—A. I quite agree in regard to the very bad effect on the feeling of capitalists by reason of this legislation; it is discouraging to the loaning of capital.

By Hon. Mr. Belcourt:

Q. And the fear of future legislation of the same kind?—A. We protect ourselves about that, but there is no doubt that that legislation has increased the rate on mortgages.

By Hon. W. B. Ross:

Q. But you cannot prevent the legislatures from passing any legislation that will have that effect?—A. But we can cease to loan in that province.

By Hon. Mr. Willoughby:

Q. But there are certain loans, like drainage and other improvements on the land, that will enhance the value of the property itself?—A. Yes, there is irrigation, and noxious weeds.

By Hon. Mr. Beique:

Q. Would not the best way be to give power to the Board, after consultation with the provinces, to determine how far legislation is to go to cover that? They might come to an agreement that in each province such and such a course should be adopted?—A. That is the reason the Bill is in this form. We came to the conclusion that the Board would take into account all those disabilities and restrictions in making its loan, and base its percentage of loan to value having regard to those restrictions, or they might curtail the loaning in certain provinces. We say here that it is to be subject to the law of the province, but there is nothing to prevent any province legislating in favour of this scheme if they wish it, and have an interest in doing so, but in this Bill we do not suggest that any province is to be asked to legislate in favour of

this scheme as against private loans. The Board can size up the situation, and go into a province if they desire it. I do not think we can, with any fairness, ask anything to be done in favour of this scheme that is not done in favour of the other men.

By Hon. Mr. Hughes:

Q. Does this provision mean that you can loan 70 per cent of the value of the land and buildings put together?—A. No, 50 per cent of the value of the land, and 20 per cent of the value of the buildings.

By Hon. Mr. Calder:

Q. I have a farm worth $3,000, with buildings on it worth $1,000; what is the maximum amount of loan that can be placed on that farm?—A. $1,700; 50 per cent on the land is $1,500, and 20 per cent on the buildings is $200.

Q. Do you think 50 per cent is too high?—A. We have taken the basis that has worked out fairly in the United States. This is exactly a copy of the American Bill.

By Hon. Mr. Dandurand:

Q. Of course you will have to watch for booms?—A. Yes, this is the limit; the Board will decide in some cases that it should not be more than 40 per cent. The Saskatchewan scheme limits to 50 per cent on land; I do not think they allow anything on buildings.

By Hon. Mr. Beaubien:

Q. Could that insurance on improvements be anything else but insurance against fire?—A. It might be insurance against tornado. A great many farmers on the prairies insure against tornado.

Q. Buildings would be really what you are after?—A. Yes. Of course there might be a silo; that is a building.

By Hon. Mr. Griesbach:

Q. Buildings are land; if erected on land they become part of that land?—A. Yes; under the Land Titles Act in many of the provinces everything becomes land. As to the limit, I do not think it is too high; in our Insurance Act and Loan Companies Act we allow loans up to 60 per cent of the appraised value. They do not run up to 50 per cent in Saskatchewan. This limit is here, but not to be loaned up to in every case; the Board will take account of conditions before they make a loan.

By Hon. Mr. Beaubien:

Q. Why have you made so low a limit as 20 per cent on buildings?—A. The reason is that buildings may deteriorate very rapidly. They are insured, first of all, but we find we cannot take the amount of insurance on a building as a guarantee that the building is worth that much. We sometimes find there is over-insurance.

Q. But you are going to appraise them?—A. Yes.

By Hon. Mr. McMeans:

Q. I do not see why you do not take 50 per cent of the value of the property?—A. We have been actuated by the experience of the American Farm Loan Board. They have found this a very wise provision. There has been no amendment to improve it. This is taken right from the American Farm Loan Act, and in our Insurance Act and Loan Companies Act we make no distinction between land and buildings; a company may loan up to 60 per cent of the value.

By Hon. Mr. Calder:

Q. If a man has $5,000 of improvements on a $3,000 farm, what is the necessity for the mortgage?—A. The reason for this in the American Act is that they found or anticipated a condition where a man with a comparatively small farm might erect a building on it out of proportion entirely to the farm, and then come in and get a big loan on it. They want to discourage the practice of over-building on the part of farmers.

On section 7—conditions for loans; use of proceeds—(*b*) to purchase fertilizers:

By Hon. Mr. Beique:

Q. I think there is no provision for the repayment of any loan made on fertilizers, out of the crop; it seems to me it should be paid out of the crop?—A. But supposing the crop is barely enough to keep the farmer alive. It would not do unless the loan is based on the value of the land at the outset.

Hon. Mr. Belcourt: May I ask Mr. Finlayson if paragraphs (*b*) and (*c*) of subsection 2, section 7, are exactly the same as in the American?

Mr. Finlayson: They are very much the same. I will not say they are word for word, but I think they are substantially the same.

Hon. Mr. Beaubien: Do they allow for the purchase of fertilizers?

Mr. Finlayson: Yes.

Hon. W. B. Ross: Paragraph (*d*) is very indefinite: "To discharge liabilities already accumulated."

Mr. Finlayson: I do not see very well how we could make it any more definite. A man may be burdened with debt. We cannot say how the debt has been incurred. It may have been incurred through illness. His family may have been ill. He may have had heavy medical and hospital expenses. He may have incurred it for educational purposes. We cannot say what he has incurred it for. The thing is that he may be ground down by debt. Now the Board can make such inquiry as it sees fit, into the reason for that debt, and it can come to a conclusion as to whether this is a meritorious loan or not. But I do not think we should try to set bounds to the judgment of the Board.

Hon. Mr. Beique: Oh, no.

Hon. Mr. Todd: There is one question I would like to bring up, in connection with tools and machinery, that is, personal property. A man may take part of a loan and put it into something that is no protection to the mortgage. Have you considered that point?

Hon. Mr. Belcourt: It is a protection to this extent, that you cannot operate the farm without these tools.

Hon. Mr. Todd: Yes, but if you cannot foreclose?

Hon. Mr. Willoughby: Your security is in the land.

Mr. Finlayson: The loan is made on the assumption that, no matter what happens to any of these tools, the land is security.

Hon. Mr. Beaubien: Don't you think that paragraph (*d*) destroys the value of paragraphs (*a*), (*b*) and (*c*)?

Mr. Finlayson: I think as a matter of fact that the construction of (*d*) would be read with preceding paragraphs.

Hon. W. B. Ross: How are you going to find out the purpose for which a man borrows? Suppose he spends the money for whisky instead of fertilizer?

Mr. Finlayson: Then the loan would be immediately repayable, under another clause. You cannot be sure in every case.

Hon. Mr. Beaubien: After he buys all that he wants, he goes to the Board and asks for a loan under paragraph (*d*), "to discharge liabilities already

accumulated". You see that would destroy absolutely the purpose that you have under paragraph (*a*), regarding the purchase of farm lands, and under paragraph (*b*), improvements, etc. I think the last two paragraphs you have there really destroy the value of the preceding paragraphs.

Hon. Mr. Beique: But they are necessary.

Mr. Finlayson: I think you have to have some confidence in the Board.

Hon. Mr. Beique: It is a direction for the Board. It is an enumeration.

Mr. Finlayson: If a man cannot use this to rid himself from the burden of debt which may have been very legitimately incurred, I think you are going more or less to hamper the usefulness of the scheme.

On Subsection 3 of section 7—Loans only to persons engaged in cultivation of farm mortgaged:

Hon. Mr. McMeans: There in the interpretation of this clause regarding farms loans you have it pretty well limited. Have you taken into consideration the fact that throughout the Western provinces a great many men live in villages and are interested in farms and cultivate the farms in the adjoining districts? They may have another occupation during the winter. Does this eliminate that class of men? Take a man running a small store; his wife may attend to it while he is out on the farm, and he may move into the village in the winter. He is absolutely debarred from the benefits of this Act, as I understand it.

Mr. Finlayson: I think the man's main business must be that of a farmer.

Hon. Mr. McMeans: You do not say " main business."

Hon. Mr. Dandurand: "Actually engaged in or shortly to become engaged in the cultivation of the farm mortgaged."

Mr. Finlayson: We do not use the word "reside."

Hon. Mr. McMeans: In the interpretation clause " farmer " means " any person whose business is that of farming and who owns and occupies a farm, or who proposes to acquire a farm for immediate occupation and cultivation by him."

Hon. Mr. Beique: The Board will apply the working out of that clause.

Mr. Finlayson: They will decide whether a man is really a farmer or whether he is only theoretically a farmer.

Hon. Mr. Beique: - You have some leeway in that.

Hon. Mr. McMeans: I think they should, but they are bound down.

Hon. Mr. Belcourt: The farm may be occupied by the farmer himself or his servant. He does not require to live on it.

Mr. Finlayson: Occupation does not mean personal residence.

Hon. Mr. Rankin: I read part of the discussion in the other House, and I think the intention clearly was that the man should be actually occupying his farm.

Hon. Mr. Dandurand: But there was a discussion as to what occupation meant.

Hon. Mr. McMeans: That is what I would like to find out.

Hon. Mr. Calder: Suppose a man has no person on the farm, but has a house on it and goes out there in the farming season and occupies the house.

Hon. Mr. Belcourt : There might be a difficulty there.

Mr. Finlayson: I do not see how we can more definitely limit this.

On subsection 5 of section 7—Interest:

Hon. Mr. Black: On what basis do you anticipate you are going to operate this Farm Loan Board? On 1 or $1\frac{1}{2}$ per cent cost?

Mr. FINLAYSON: It is very hard to arrive at any conclusion. The American Land Banks are operating, many of them at least, at an expense rate of less than one-half of one per cent. Some of them are operating at an expense rate now of about one-third of one per cent; it would vary with the volume of loans. The banks that I refer to as operating on that basis have loans up to over $100,000,000 each. The expense of operation in the early years was very much larger.

Hon. Mr. BELCOURT: To what extent did it go? What was the highest?

Mr. FINLAYSON: In the first year of operation, when the loans were very small, some of them had an expense rate of 2 per cent. or 3 per cent. I have not got returns from them all, but I have from a number. Now, a number of the State schemes are also operating at a rate of expense less than 1 per cent. We have the provincial scheme in Ontario; there is provision there for a 1 per cent spread between cost of money and rate to the borrower.

Hon. Mr. BLACK: Yes, but what is the cost there?

Mr. FINLAYSON: I am told they are living within their allowance. That is, the report I have here shows that they are up to date on the right side of the account, as far as administration is concerned.

Hon. Mr. BLACK: But how about losses? I suppose we will get that, Mr. Chairman.

Mr. FINLAYSON: You will get that from the provincial officers when they come.

Hon. Mr. BELCOURT: What is the amount you set aside for losses?

Mr. FINLAYSON: It is "in the judgment of the Board."

Hon. Mr. BELCOURT: Out of the 1 per cent—what proportion?

Mr. FINLAYSON: The 1 per cent is purely for expenses; and in addition to that there is provision for loss.

Hon. Mr. BELCOURT: But what is the estimate of that?

Mr. FINLAYSON: There again we are more or less at sea. I am not prepared to say what the Board will decide. I think it will have to be left to the Board.

Hon. Mr. BEIQUE: But what is the experience in other countries? In the States, do you know what has been the experience? Of course, there it is not much, because they are co-operative.

Mr. FINLAYSON: We have done a little differently from what they have done in the United States. The United States provide that the cost of money to the borrower shall not exceed by more than 1 per cent the interest payable on the farm loans bonds. Now, they do not distinguish between expense of operation and losses. They simply say there must be a spread not exceeding 1 per cent. We have gone a little differently. We have indicated here that we must make provision not only for expense of operation, but the Board must use its judgment in deciding what provision is to be made in the mortgage rate for prospective losses. In the Land Banks in the United States they charge off all land taken over. As land comes on their books they write it off. In the consolidated statement of the twelve Federal Land Banks the item "foreclosed real estate" does not appear. Everything has been written off up to date. That is, for the bank system as a whole they issue a consolidated statement. In the case of individual banks in the system, I understand that some of them have had to be relieved of some real estate by other banks. One bank in particular, during 1925, had to foreclose more land than it could take care of in that way and show a proper balance sheet; so that the other banks came to the assistance of that bank and relieved it of approximately half its real estate. The remaining half has been charged off on the books of that bank. The other half has been distributed among the remaining eleven banks.

Hon. Mr. GRIESBACH: Passing from what they do in the States, you have information with regard to what the companies have found from experience in Western Canada. Now let us have that.

Mr. FINLAYSON: Yes, we have the loan companies operating under the supervision of our department. The life insurance companies are very large lenders in the west. They loan very largely in the western provinces. During the last fifteen years, beginning around 1910 or thereabouts, loaning was very heavy and it more or less continued up to comparatively recent years. For a long time many of them wrote off nothing against their mortgages. Some of them had losses, but not very extensive. During the last five years, however, nearly all the companies have written off against farm loans, especially in the western provinces.

Hon. Mr. BLACK: What percentage, about? Take the principal loan companies.

Mr. FINLAYSON: In the province of Alberta, in 1924 and '25, the life insurance companies wrote off, or sustained as loss nearly 4 per cent of the amount of farm loans outstanding. They wrote off 3.74 per cent.

Hon. Mr. CALDER: That would be an accumulation?

Mr. FINLAYSON: That is more or less an accumulation of several years of loaning.

Hon. Mr. GRIESBACH: But there is no standardization as among the companies as to how they shall do this? There is no legal standardized method of writing off?

Mr. FINLAYSON: No.

Hon. Mr. GRIESBACH: So, while you state that 4 per cent is the amount, you do not know what they did not write off, or the basis upon which they wrote off and arrived at 4 per cent?

Mr. FINLAYSON: This is the record of the province of Alberta as far as life insurance companies are concerned: in 1922 they wrote off farm mortgages in the province of Alberta, or sustained a loss in the disposal of real estate foreclosed, of 1.10 per cent of the mean farm mortgages outstanding in that province during the year. In 1923 the percentage is 2.22; 1924, the percentage is 3.48; 1925, the percentage is 3.74.

Hon. Mr. GRIESBACH: But that is loss. My question is as to the cost of operation. You are talking about interest rate now.

Hon. Mr. BEIQUE: Let us finish that.

Mr. FINLAYSON: Yes, because really this all affects the price of money. In Manitoba the ratios ran: .19 per cent in 1922; .64 in 1923; 1.66 in 1924; and .82 in 1925. Saskatchewan: .40, .71, .92, and .44. I may say that all these figures are in Hansard. I think the honourable leader of the Senate gave them in his address on the second reading.

Now, that is the life insurance companies' losses. I may say here that this percentage for, say, 1925, should not properly be charged against the operations in 1925. They have a loan, say, back in 1910. That loan has been gradually getting bad and is finally dealt with in 1925. To a certain extent these percentages represent accumulations of unsatisfactory lendings for ten or fifteen years.

Hon. Mr. BLACK: Is it not also true that these companies have at present on their hands a very large amount of mortgaged property that must be written off and which they are still carrying because they do not want to make too bad a showing?

Mr. FINLAYSON: As to what they will have to write off it is very hard to say. This may give an indication. The life companies had farm loans outstanding in 1925, to the extent of $77,000,000. That is for all provinces.

The loans other than farm loans amounted to $162,000,000. The farm loans on which interest was overdue for more than one year, at the end of 1925, amounted to $13,500,000. That thirteen millions is the amount of farm loans which were in arrears as to interest or charges or principal for one year or more preceding the date of account. Now, as between the provinces, Alberta had $18,000,000 of loans and the loans in arrears for a year or more were $4,700,000.

Hon. Mr. HUGHES: What is the percentage?

Mr. FINLAYSON: That is about 25 per cent.

Hon. Mr. BLACK: The amount of interest that would be one year in arrears might not be an indication. What percentage have you got there of two years in arrears?

Mr. FINLAYSON: I have not got them classified on that basis. It is "one year or more".

Hon. Mr. BELCOURT: It may be two, three or four years.

Hon. Mr. BLACK: Perhaps I was a little confused, but earlier in this discussion I understood you to say that Alberta wrote off an average of 4 per cent in 1924 and 1925.

Mr. FINLAYSON: But that is written off. These are loans which might be regarded as in more or less unsatisfactory standing.

Hon. Mr. BLACK: But in addition to that there are 20 per cent of loans outstanding of a doubtful nature?

Mr. FINLAYSON: If that is to be regarded as indicating doubt—and it usually does. If a loan is in arrears it is not considered in good standing. In Manitoba the amount was $14,000,000, in round numbers, and the amount in arrears one year or more $3,500,000. In the province of Saskatchewan there was $42,700,000, and in arrears $5,500,000.

Hon. Mr. CALDER: I think what the Committee would like to have is your judgment as to what amount should be set aside out of the interest each year to take care of possible losses, because if the insurance companies had set aside a fraction of the interest to take care of losses, they would have been taken care of. My point is that during the last three or four years they have written off certain property, but if during all the years this loan had been carried they had set aside a fraction of the interest—

Hon. Mr. BLACK: What fraction?

Hon. Mr. CALDER: I shall let Mr. Finlayson analyze the figures.

Hon. Mr. BLACK: It is clearly demonstrated that while they have written off 3.76 per cent last year, that is an arbitrary figure.

Mr. FINLAYSON: These other figures are simply what I have said; they are loans which are in arrear one year or more. What amount of those loans will go bad I do not think any person can say. I may say that there are on the companies' books loans which are in perfectly good standing and which at one time were one or two or even three years in arrear. They have become good.

Hon. Mr. BELCOURT: The figures you have given us are confined to the western provinces. How do those figures compare with the results in the eastern provinces?

Mr. FINLAYSON: The only other province in which there is any volume of farm loans is the province of Ontario. The life insurance companies had outstanding there at the end of 1925 $1,783,000 of farm loans and the amount in arrears was $28,000.

Hon. Mr. HUGHES: Have you got the average rate of interest charged by the insurance companies on the loans in the western provinces?

Mr. FINLAYSON: On farm loans the minimum rate of interest, except on very large loans, is 8 per cent. In the case of small loans you will probably find higher rates, going up to 9 per cent. In some cases we have found loans bearing 10 per cent interest. I should say the average would be something over 8 per cent on farm loans.

Hon. Mr. BELQUE: And in Ontario?

Mr. FINLAYSON: I think they are loaning at 7 or 7½ per cent.

Now, coming to Senator Griesbach's question on the cost of operation. There are about 14 Dominion loan companies; they have about $75,000,000 of mortgage loans. We have not got those distinguished as between farm loans and others. They have other assets amounting to something over $30,000,000. Their expense rate for the years 1924 and 1925—that is the total expenses assessed against total assets, mortgages and others—comes to about 1¼ per cent. If you assess against mortgages only you have a cost of operation of about 1.7 per cent. That does not include taxes or losses. The taxes amount to about one-quarter of one per cent.

Hon. Mr. BEIQUE: That would not apply to the Board. The Board would pay no taxes.

Mr. FINLAYSON: My own idea is that the Board should pay ordinary taxes.

Hon. Mr. DANDURAND: Could you give the distribution of loans from province to province?

Mr. FINLAYSON: At the end of 1924 they amounted to about $70,000,000. There were $6,200,000 in Alberta, $2,500,000 in British Columbia, $11,500,000 in Manitoba, $1,200,000 in New Brunswick, $5,800,000 in Nova Scotia, $31,-500,000 in Ontario, none in Prince Edward Island, none in Quebec, $12,100,000 in Saskatchewan.

Hon. Mr. McMEANS: Does the tax include income tax?

Mr. FINLAYSON: Yes, everything, and also the special war revenue. Some of the provinces have a similar tax. The taxes on land would not be included here; they would go against revenue from the property. This includes really the ordinary taxes, business taxes, the provincial tax on revenue, if there is any, the Dominion tax of 1 per cent under the Special War Revenue Act, and the income tax.

Hon. Mr. CALDER: Under this scheme there would be no such tax.

Mr. FINLAYSON: My idea is that the Board should pay taxes.

Hon. Mr. BELCOURT: You have told us the cost of operation would be about 1.7 per cent.

Mr. FINLAYSON: I am not predicting what this system will operate at.

Hon. Mr. BELCOURT: Could you give us your own opinion applicable to this system?

Mr. FINLAYSON: Really, I should not like to forecast, because so many things will enter into it. It will depend very largely on the probable volume of loans, the density of the farming population in the field in which it operates, the nature of the legislation, priorities, and so on. All those things have to be taken into account by the Board.

Hon. Mr. BELCOURT: You cannot form an opinion just now?

Mr. FINLAYSON: I should not like to because it might be hampering and embarrassing to the Board when they come to deal with it. This provision regarding the 1 per cent was inserted in the House of Commons. The Bill as it came to the House of Commons left everything to the discretion of the Board.

One thing more. I would ask you to note that this particular clause is one which says how the interest rate to be charged the borrower is to be built up. First is the cost of money on the farm loan bonds. Add to that provision for the cost of operation not exceeding 1 per cent, then add to that such provision for losses as the Board deems necessary. It does not say that in the first year the Board shall not expend more than 1 per cent of the loans outstanding. That would make impossible the operation of the Board at the outset, because any person can see that no Board of this kind can possibly get under way at an expense of 1 per cent of the amount of the loans. They can draw on the interest which is waived on this $1,000,000 of the Dominion Government.

Hon. Mr. Belcourt: In the event of this Board finding out in two or three or five years that it is not a success, that year after year terminates with a loss, what provision have you made, if any, for liquidation or winding up or abandonment?

Mr. Finlayson: We do not prescribe liquidation here. Presumably it would fall within the ordinary provisions. It is a corporation.

Hon. Mr. Beique: It would be taken care of in this way, I think: By making an arrangement with loan companies to transfer and have legislation.

Mr. Finlayson: Our idea is that there will always be sufficient margin in this initial 15 per cent capital and the contingent liability of the Dominion Government to make sure at any time that these loans can be handed over to other lenders.

Hon. Mr. Calder: I asked about the payment of this $1,000,000 to the Dominion Government, and I said I thought it would be taken care of out of the interest the borrower was to pay. Where is it included here?

Mr. Finlayson: The repayment of capital to the Dominion Government?

Hon. Mr. Calder: Yes. Is that included in the cost of operation?

Mr. Finlayson: Oh, no.

Hon. Mr. Calder: How do you take care of it here?

Mr. Finlayson: Out of the saving on these margins.

Hon. Mr. Calder: This is where it is going to fall down unless this section is made as it should be. It seems to me we should have a very clear understanding as to the main purpose of this Bill. A good many have the idea that the main purpose is to get the rate of interest down to the lowest possible point. I think that is a mistake. I think the rate of interest should be reasonably high in order to safeguard the system. After all, a farmer is not interested very much in a shave of one-half of one per cent, or even one per cent. If a man gets a loan of $2,000, the difference is $20 a year. That is nothing in comparison to the privileges and safeguards he gets under legislation of this kind. When we went into this business in Saskatchewan we took that element into consideration. Our main object was to protect our farmers against certain practices that had grown up amongst the loan companies. They were being dealt with very severely. Under this law we provide for the loan to be amortized over a period of 25 or 35 years, and that, after all, is the main thing in the legislation. I think we should get away from the idea that we want to shave the interest to the very lowest point. For that reason I think the 1 per cent limitation should come out. I think the Board should be left free to take care of the situation as it exists, and it should not hesitate to place the rate of interest so as to take care of operating expenses, provide for reserve, and also make some provision for the repayment of the moneys to the Dominion Government.

By Hon. Mr. Dandurand:

Q. Taking for granted that the farmers in Saskatchewan, Alberta and Manitoba are being provided with 8 per cent loans, is it your knowledge that

they can borrow money at 8 per cent to-day which will include amortization at that rate?—A. No; there are practically no amortized loans in Western Canada; they are all straight term loans for a period not exceeding five years.

Q. What is the average interest charged in these three provinces?—A. I think the minimum farm loan rate, except on large loans, is 8 per cent.

Q. Do you surmise that under this scheme 8 per cent would cover the amortization?—A. Well, that involves the question as to what it is going to cost to administer the scheme. I cannot give an opinion. Let us assume that those farm loan bonds command a market of $5\frac{1}{2}$ per cent.

Q. For the time, but they may come down to 5 per cent?—A. Yes, but I am assuming at the outset they command $5\frac{1}{2}$. Assume that 1 per cent is a fair provision for expenses of the Board, and that provision for losses could be made at the rate of one-half of one per cent, that would mean $5\frac{1}{2}$ plus 1 plus $\frac{1}{2}$, which would give a rate of interest of 7 per cent. Now, the borrower could elect whether he would pay, in addition to that, 1 per cent for amortization of principal--bringing his rate up to 8 per cent inclusive—or 2 per cent, bringing his rate up to 9 per cent inclusive. In the first instance, with the 8 per cent inclusive rate, he would repay his loan in exactly 32 years. With the 9 per cent rate he would repay his loan in 23 years. In the first case, if these assumptions are right, the borrower would be paying the minimum rate that he now pays for interest alone, and at the end of 32 years he would be debt-free, and with the safeguard which Senator Calder referred to, he has also the power to repay at any time. If he repays within 5 years he must pay such a penalty or bonus as the Board requires him to pay. There is nothing to limit the discretion of the Board in that respect. If he repays after five years, then the Interest Act comes into operation which says that the bonus that he may be required to pay shall not exceed three months' interest.

By Hon. W. B. Ross:

Q. I think you told us that the United States Farm Loan bonds were tax-free; when they were sold had they a fixed rate?—A. No, there is no fixed rate in the Act except that they could not be sold to yield more than 5 per cent; the maximum charge to the farmer, then, was 6 per cent, because there was 1 per cent between the two. The Farm Loan bonds in the United States never sold for more than 5 per cent. At one time the rate threatened to go beyond 5 per cent, that is, the bonds bearing a 5 per cent coupon were not readily marketed, and the Treasury of the United States stepped into the field and purchased over $100,000,000 of those bonds at 5 per cent. That stabilized the market at 5 per cent. They are now selling to yield about 4.30.

By Hon. Mr. Beique:

Q. What is your idea that the first issue of bonds will be—a long or short term?—A. What I have in my mind is a bond about 20 years, with a 10-year maturity option, with also probably further provision for maturity at the end of 5 years by payment of a certain premium, and unlike the stock, it will be negotiable.

By Hon. Mr. McMeans:

Q. Do you know what the loan companies borrow money for?—A. I think most of them are paying 5 per cent. Some of them are borrowing money in the Old Country for less than 5, some for $4\frac{3}{4}$ and there may an odd case of $4\frac{1}{2}$, but I do not think it is likely.

Adjourned at 1 o'clock until Monday, June 14, after sitting of Senate.

MONDAY, June 14, 1926.

The Standing Committee on Banking and Commerce met to consider Bill 148, an Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for farmers.

Hon. G. G. Foster in the Chair.

Hon. Mr. BELCOURT: I understood from Mr. Finlayson the other day that this Bill is the co-operative result of constant communication between Mr. Finlayson and Dr. Tory, and that this Bill represents all of Dr. Tory's ideas, and the explanations given to us the other day by Mr. Finlayson are practically the same as Dr. Tory would give us if he were here.

The CHAIRMAN: I did not understand Mr. Finlayson to say that.

Hon. Mr. BELCOURT: I think that is what he said.

Mr. FINLAYSON: The impression I meant to convey was that Dr. Tory had given a great deal of study to the legislation in other countries, as I have not done, and he has had the benefit of more intimate communication with the Federal Farm Loan System officials in the United States than I have had. My inquiries have been limited purely to correspondence. Dr. Tory has conferred with the Federal Farm Loan Board in Washington and also with the officials of various Land Banks throughout the United States. Just how far he has gone in that direction I do not know. I merely want to make it plain to the Committee that possibly as a result of that investigation, of which I have not had the benefit, Dr. Tory may be able to give the Committee something that I am not able to give them, and I think he should be here.

Hon. Mr. TODD: I understand this Bill is not the same that Dr. Tory prepared.

Mr. FINLAYSON: It has been modified, of course, since Dr. Tory submitted it. It has been modified as a result of conference and consultation.

Hon. Mr. DANDURAND: Was he present?

Mr. FINLAYSON: Quite. Oh, yes. The framework and structure are still mainly Dr. Tory's draft, but there have been very important changes made in it since it was originally submitted.

Right Hon. Sir GEORGE E. FOSTER: We may find from Dr. Tory's representations that probably the changes have not been an improvement.

Mr. FINLAYSON: I think he is satisfied with the Bill.

The CHAIRMAN: Now, gentlemen, we will take up the Bill at page 5.

On subsection 6 of section 7—Repayment:

Hon. Mr. CALDER: Why, Mr. Finlayson, make provision for semi-annual payments? Is it practicable at all?

Mr. FINLAYSON: I think the view was that it is sometimes easier to get together half-yearly payments than to get together a yearly payment, and that if half-yearly payments are required the money will be more likely to be collected than if only annual payments are required. With the operation of the pools in the West, the income of the farmer is more evenly distributed through the year than formerly was the case.

Hon. Mr. CALDER: Why limit it to 1 or 2 per cent?

Mr. FINLAYSON: That is mainly, Senator, to facilitate uniformity in the accounts. In the United States they have the amortization principle without any specified rate of amortization. The amortization term must not be less than five years, nor more than forty, but it can be anything within that range. It seemed to us that if we gave the borrower the option between paying 1 per cent of the amount of the loan yearly, or 2 per cent, nothing more was required.

Hon. Mr. CALDER: Then after the five-year period you provide that he may pay up the mortgage in full. May he pay in part?

Mr. FINLAYSON: Yes.

Hon. Mr. CALDER: It seems to me that if a mortgage is given to run for a period of thirty years, with the specific provision in the Bill that after five years the man may come in and pay what he chooses, the mortgage cannot be altered prior to the end of the five-year period unless there is power given in the Bill. I am inclined to doubt that it can be altered.

Mr. FINLAYSON: I do not think this would be different from an ordinary mortgage. Take the ordinary mortgage; it runs for five years. I do not suppose there is anything in the mortgage law of the province which says on what terms repayment can be accepted before the five years. If a man wants to repay before the five years he meets such conditions as are imposed by the company.

Hon. Mr. DANDURAND: There is an error in the eighteenth line. It should read "seven per cent."

The CHAIRMAN: Seven instead of eight.

Mr. FINLAYSON: Yes. That change was made in the House of Commons and there has been a clerical error in the reprinting of the Bill.

Hon. Mr. BELCOURT: What objection is there to putting it in the Act that one may pay before the expiration of the time?

Mr. FINLAYSON: If it is considered desirable to give express authority to the Board to accept repayment within five years, it would have to be on such conditions as the Board may prescribe.

Hon. Mr. McLENNAN: Coming back to subsection 6, would it not be well to make it quite clear that the borrower has the option?

Mr. FINLAYSON: If it is desired to make it express I can see no objection to doing it. I do not think it is necessary.

Hon. W. B. ROSS: To insert in that subsection the words "at the option of the borrower" would make that clear. "Every farm loan shall be repayable in equal annual or semi-annual instalments of principal and interest, at the option of the borrower."

Mr. FINLAYSON: Yes, that would be all right—"at the option of the borrower."

The Hon. the CHAIRMAN: Now, what about that other clause? Where would you put that in. Is 7 all right? Change "8" to "7".

On subsection 8—payments by borrowers:

Hon. Mr. CALDER: Strike out the words after "at any time" to "repay."

Mr. FINLAYSON: If it is the wish of the Committee to make such a change, I think it should be done in this way: to insert after the word "Act" in the first line of subsection 8, the words "but subject to such regulations as the Board may prescribe, not inconsistent with the provisions of the Interest Act."

Hon. Mr. CALDER: That would hardly do, because under the Interest Act all you are empowered to do is to charge a bonus for three months; but if a man comes in after the second or third year the Board may wish to go further.

Mr. FINLAYSON: The Interest Act does not deal with the man who wants to repay within the 5-year period. The Board may prescribe the regulations, but the regulations must not contravene the Interest Act. The Interest Act operates after 5 years, but not within 5 years.

On subsection 9—if loan expended for other purposes:

Hon. Mr. McMeans: I should like to see the words put in "at the option of the Board." The Board has nothing to do with that. They might be satisfied to let it run.

Mr. Finlayson: I think the Board can approve. I think the intention is that the Board shall have power to do exactly what Senator McMeans suggests—that is, that the penalty of repayment is only in the case of an expenditure contrary to the wishes of the Board.

Right Hon. Sir George E. Foster: But must not the approval of the Board be anterior to the expenditure? Otherwise you have the man going on and doing what he pleases. The idea is that the Board shall lay down regulations. Then, if there is an expenditure contrary to the regulations after the approval is given, the penalty comes.

Mr. Finlayson: I do not think the clause would prevent the Board approving the expenditure after it had been made.

Hon. Mr. McMeans: Suppose he spent $100 and he didn't go to the Board at all?

Mr. Finlayson: Then when it comes to the attention of the Board they either approve or disapprove.

The Chairman: We are still on subsection 9.

Hon. Mr. McMeans: After the expenditure of the money has been approved by the Board a small proportion of that may be used for some other purpose, but the whole remainder is an absolutely good and valid security with which the Board is satisfied. I do not like to see a statutory provision so clearly defined as that, saying that there is no option at all with the Board.

The Chairman: Do you think, Mr. McMeans, it would be for the good working of the Act to permit a man who has borrowed $2,000, who has $1,000 paid on his land and is supposed to put the other half into barns, improvements, etc., to go and pay a $200 store bill or buy a $500 automobile? Do you think that ought to be allowed?

Hon. Mr. McMeans: No; but I say there are cases in which the circumstances are such that it ought to be at the option of the Board to decide whether or not they should immediately declare the loan due and repayable. There should be some option in these matters.

Hon. Mr. Daniel: In that case you mention, Mr. Chairman, is the man liable to have his mortgage foreclosed, or what is the penalty?

The Chairman: Mr. Finlayson thinks he would not have it foreclosed.

Hon. Mr. Calder: Under this Bill as it stands a man may borrow money for practically any purpose; he can pay off old liabilities, or pay his sick debts, or buy an automobile, or do anything he likes—under a previous section. But the point is that when a man makes application he must state the purposes for which he is borrowing, and these purposes are approved by the Board. Now, after he gets his money he uses part of it for some purpose that he has not disclosed and that the Board has not approved. I maintain that under this section, if that is true and a knowledge of the fact comes to the Board, the Board has only one thing to do, and that is—

Hon. Mr. McMeans: To approve of it.

Hon. Mr. Planta: They can approve.

Hon. Mr. Calder: They can, but that is not the point.

Mr. Finlayson: May I ask, Senator Calder, if these other purposes for which he uses a part of the loan are purposes within subsection 2 of section 7.

Hon. Mr. McMeans: It does not make any difference what purpose.

Hon. Mr. CALDER: I maintain that the regulation should be so framed as to compel the intending borrower to disclose the purposes for which he is going to use the loan, because the Board may decide not to lend him the money if they do not agree with the purposes.

Mr. FINLAYSON: Yes.

Hon. Mr. CALDER: In his application, then, he must state the purposes for which he is going to use the money. That statement comes to the Board and the Board approves.

Hon. Mr. BELCOURT: One or more or all of them.

Hon. Mr. CALDER: Yes. Then he gets the money, and he uses part of that money for a purpose that has not been disclosed to the Board and that the Board has not approved. What must the Board do? Under this section his mortgage is immediately repayable.

Mr. FINLAYSON: If that is the effect of this clause, then it does not carry out the intention; that is all I can say.

Hon. W. B. ROSS: Mr. Finlayson, if you add at the end of subsection 9, "the said loan shall become forthwith payable in full, but the forfeiture may be waived by the Board for cause shown by the borrower," that would give them a chance to excuse the thing if it is a small matter. Perhaps they may make him return the money.

Mr. FINLAYSON: There is just one point that occurs to me, Senator. Would you give that power to the Board in the case of a very gross misapplication of the proceeds? Suppose the man uses the loan to take a trip to Florida?

Hon. W. B. ROSS: That is what I am trying to provide against. I would give the Board power to waive the forfeiture if they admit it is not an important matter.

Mr. FINLAYSON: You would make that power unrestricted even in the case of a gross misapplication?

Hon. W. B. ROSS: Well, for cause. I assume the borrower would have to give reasons.

By Hon. Mr. Reid:

Q. Take the case of a man who has no money, and he borrows $2,000, which he says he is going to spend on buildings, but he is waylaid, or something happens by which he loses it before he got to the bank; what would happen then?—A. I should say that would be wholly a matter for regulation by the Board. If the loan is to be used for building the Board would follow the usual practice of loaning institutions, namely, to advance as construction progresses.

Q. I was wondering if it would not be a good idea to provide in the Bill that money would be advanced for the purpose for which it was to be used?—A. I think it would be unwise to load up this measure with a great many details which should be covered by regulations.

Q. But Sir George Foster raised the point of a man buying an automobile: how could he do so if he borrowed $2,000 for building?—A. You cannot put those details in the Bill. The Board must have some moral responsibility.

By Hon. Mr. McMeans:

Q. Suppose a loan comes due and payable, has the Board a right to let those loans run on for 32 years?—A. An ordinary lender has a great many remedies that he does not enforce.

By Hon. Mr. McLennan:

Q. Among the regulations specified here there is nothing pointing out any duty of the Board to see that the money loaned goes to the proper place, and I

think the regulations ought to do so, if the point is important?—A. That could be considered under section 16. We can make that express when we come in section 16.

On section 8—when loans available; subsection (1)—subscription by the Province.

On subsection (2)—provincial boards:

Mr. Finlayson: The point was raised on Friday that this Board could not be completed at the outset because two members must be representatives of the borrowers, and at the outset there are no borrowers; and that this probably required an amendment to make it clear that until such time as the borrowers became organized to elect three representatives the Board shall continue with three members. I will prepare that amendment.

On subsection 3—how loans made:

By the Chairman:

Q. What does this mean—" subject to the approval of the Board "?—A. It is for the Provincial legislation to say whether these loans to farmers shall be made direct from the Board to the borrower, or from the Board to an association of which the borrower becomes a member.

By Right Hon. Sir George E. Foster:

Q. So that if a Province had a narrow majority which decides that it shall run through the co-operative system, every man who wants a loan is obliged to join the co-operative, while those who do not care to join the co-operative, but who may be equally reliable, are precluded from taking advantage of public money?—A. Yes, they must go some place else. Of course this Bill provides that they may have entirely one system, or partly one and partly another. Of course if a Province found that either system did not meet the requirements of the Province I think it could change; but the Province would have to change it. We recognize that there are very great differences in various Provinces. The rural population of some Provinces have shown already that they are desirous and willing to co-operate, one with the other. The farmers of other Provinces have shown the opposite tendency. We say we are going to put this in the hands of the Provinces; they are in the best position to say what their people want, and what will best meet the needs of their Province. I imagine what most Provinces will say will be that the system may loan both directly to farmers and through local co-operative societies; but if there is any Province which has a very decided inclination towards co-operation it is permissible under this Bill to prescribe the one system.

On subsection (4)—Provincial Treasurer:

Mr. Finlayson: The Advisory Council is referred to in section 11. The idea is to have a sort of a conference at which the working of the system and the needs of the farmers can be discussed. It is a sort of an open forum where everything in the interest of the system and the borrowers will come under discussion. I think it will do good; at any rate it will do no harm.

On subsection (5)—bonds to be legal investment:

By Hon. Mr. Todd:

Q. Do the Government, in enacting this, guarantee these bonds? Suppose there is a loss made on the bonds, what position is the Government in? Are they not morally bound to look after those bonds?—A. That is a question. There is no legal responsibility, that is clear.

Q. But in the United States, while there is no legal responsibility, it has been openly stated that there was a moral responsibility?—A. I think it was

Secretary Hughes who made such a statement openly—that those were instrumentalities of the United States, and that no Government of the United States would ever see those bonds go to default. Of course that makes it very difficult for any subsequent Government to see them go to default. There is nothing like that in this Bill. No such statement has been made by the Government or any person representing the Government. I think it would be unwise to do so. At the same time I quite realize that even without that there would be a certain measure of moral responsibility.

By Hon. W. B. Ross:

Q. I think it would be better to put right in the Bill the statement that the Dominion Government would be responsible for those bonds; it is there, anyway, and it might as well be stated openly.—A. I would rather put in something just the opposite. I may add that this subsection (5) is necessary because the matter of trust funds is within the jurisdiction of the Provinces. We go as far as we can in section 14 of the Bill to authorize any company under the jurisdiction of the Parliament of Canada to invest in these bonds.

By Hon. Mr. Tanner:

Q. If a Province does not agree to that, they cannot have the Bill at all?—A. No; they have to agree to this before anything can be done.

On subsection (6)—relief of Provincial Board:

No discussion.

On section 9—reserve fund:

Mr. Finlayson: In subsection 1 of section 9 you will notice the words " the said reserve shall equal 25 per cent of the paid capital of the Board." Then down below in subsection 2, the last lines, the words " until the reserve fund shall have reached the amount of 25 per cent of the paid capital stock." Now, there is a distinction between capital and capital stock in this Bill. The initial capital is capital, but 5 per cent of the loans is designated as capital stock. I would suggest that we put in their " paid capital stock " in the 4th line of subsection 2 of section 9. That will mean that 25 per cent of the profits shall be credited to reserve until the said reserve equals 25 per cent of the paid capital stock; that is 25 per cent of the 15 per cent contributed by the Dominion, the Provinces, and the borrowers. That would not apply to such portion of the five millions as would be originally paid in

On section 10—if adverse report:

Hon. Mr. McMeans: That is the same as subsection 6.

Mr. Finlayson: You will notice this difference. Subsection 6 of section 8 is what is required to be done by the Provincial legislature; now we want to say the same thing for ourselves, so I think 10 should stand.

On section 11—advisory council:

Hon. Mr. Belcourt: Who appoints the advisory council?

Mr. Finlayson: It is summoned by the Minister.

Hon. Mr. Belcourt: What Minister?

Hon. Mr. Dandurand: The Minister of Finance.

Mr. Finlayson: The membership of the advisory council is described here, consisting of the Provincial Treasurer of each Province of Canada and the chief executive officer of each Provincial Board.

On section 12—legislation prejudicially affecting security:

Hon. Mr. WILLOUGHBY: I am, as you know, a very strong advocate of rural loans, still we want to play fair with the other institutions that loan money, and I think the regulations under that should be general and applicable to all companies, and that we should not have a preferential position in lending our money. The private companies should be put on a parity. Take the Province of Alberta, for instance. There are a great many prior liens. Now, if the law that is made to deal with any existing legislation that would prejudicially affect the security, it should be applicable to all other loan companies as well as to this Board.

Hon. Mr. BEAUBIEN: How can you tie the Province down?

Hon. Mr. WILLOUGHBY: Only by saying that any such legislation shall be general legislation.

Hon. Mr. BEAUBIEN: The only thing you say in this Bill is what you say there: In other words, if any one of the Provinces makes prejudicial legislation it shall cease to make loans.

Hon. Mr. DANDURAND: The other company could do likewise, and refuse to make loans in the future. They would not make an exception in our favour.

The Hon. the CHAIRMAN: I think there is a great deal in that. I do not think we should prejudice any other company or institution that is doing business by unfair legislation.

Hon. Mr. WILLOUGHBY: You could easily put in after the word "Board" a provision that such legislation shall be general, dealing with all companies.

Mr. FINLAYSON: The object of section 12 of the Bill was that it might act as a deterrent to any Province that was inclined to pass confiscatory legislation or undermining legislation. The only remedy that we have if the Province should pass legislation of that kind is, it seems to me, that the Board should say to them: "We are going to discontinue making loans in this Province."

Hon. Mr. WILLOUGHBY: "Which, in the opinion of the Board, would prejudicially affect the security of existing or future loans." Are not those the loans of this Board?

Mr. FINLAYSON: Yes. Now I see the point. I understand you to suggest putting in here "would prejudicially affect the security of existing or future loans of this Board or of other loaning institutions in the Province."

Hon. Mr. WILLOUGHBY: That is right.

Right Hon. Sir GEORGE E. FOSTER: The Province might be quite willing to put that in with reference to this loaning body but not with reference to others.

Hon. Mr. BELCOURT: In any case, don't you think that would have to be a formal amendment through the Dominion Loan Act?

Hon. Mr. WILLOUGHBY: As a Dominion body we are setting up a system whereby we will make loans.

Hon. Mr. BELCOURT: The loan companies may be willing to take these risks. We are only setting forth the conditions under which this Board must operate.

Hon. Mr. WILLOUGHBY: I do not think you have a right to shut out the other companies that are legitimately organized for that purpose.

Hon. Mr. BELCOURT: Those companies are not compelled to make any loans at all to anybody. They are the masters of their own destiny.

Hon. Mr. HUGHES: Are you going to make this Board the guardian angel of all the loan companies?

Hon. Mr. DANDURAND: We are simply guarding ourselves against legislation which would affect the loans we have already made in the Province, and we declare that under these conditions we may cease to make further loans. I do not see that we can take care of others at the sametime.

Hon. Mr. BELCOURT: I am doubtful if even this is required.

Hon. Mr. DANDURAND: We are giving the Board authority to cease making loans in a Province where prior liens would be established.

Mr. FINLAYSON: I do not think it is strictly necessary, but it is a good thing to have there. The Board could, as a matter of right and law and duty, discontinue lending in any Province at any time. This is here because we think it may act as a deterrent, and will save the Board a lot of argument when they say they are discontinuing. All they will have to say is "We are carrying out the provisions of the law." We did not think it would do any harm, and it would exert a little moral pressure.

On section 13—cost of administration of Provincial Board:

On section 14—investment by Canadian companies:

Hon. Mr. BELCOURT: What is the necessity for that?

Mr. FINLAYSON: All the Acts mentioned in section 14 have investment sections prescribing the forms of investments which the various companies may make. None of the Acts recognize this type of security, because it was unknown. We are merely extending the authority of those institutions to invest in the farm loan bonds.

Hon. Mr. MCMEANS: You are citing Dominion Acts. There are local Acts.

Mr. FINLAYSON: They will have to be dealt with by the Provinces.

Hon. Mr. WILLOUGHBY: With reference to subsection 3 the Provinces have that power now. The Province of Saskatchewan was investing sinking funds.

Mr. FINLAYSON: Yes, and also the Province of Manitoba.

On section 15—purchase of bonds by Minister.

Mr. FINLAYSON: This is a provision similar to that in the Federal Farm Loan Act, by which the Treasurer of the United States is authorized to invest $100,000,000 in farm loan bonds. About 1921 or 1922 the market for the bonds was depressed and threatened to go above the 5 per cent basis. The Treasurer stepped in and purchased about $100,000,000 of farm loan bonds—"pegged" the price, and stabilized the market.

Hon. Mr. BELCOURT: What likelihood would there be of the Government purchasing bonds at 5 per cent?

Mr. FINLAYSON: I cannot say. The time might come when the market for bonds of any kind would be very much depressed, and it might de desirable to stabilize the market.

Hon. Mr. BELCOURT: I understand that, but what is the advantage of the Government purchasing bonds at 5 per cent? These are 5 per cent bonds?

Mr. FINLAYSON: No, not necessarily.

On section 16— regulations:

Mr. MCLENNAN: I think there ought to be a provision put in there specificially prescribing the duty of the Board to oversee the expenditure of the money borrowed.

Mr. FINLAYSON: I thought that might possibly come at the end of (a)—just saying that the regulation shall prescribe "the employment of Officers, appraisers, inspectors, attorneys, clerks and other employees and their remuneration" and their duties. Then it could all be set out in the regulation.

Section 17 was considered.

.The Committee adjourned until to-morrow.

June 15, 1926.

The Standing Committee on Banking and Commerce met to-day to consider Bill 148, for the purpose of establishing in Canada a system of Long Term Mortgage Credit to Farmers.

Hon. G. G. Foster in the Chair.

Lachlan MacNeill, Commissioner of The Manitoba Farm Loans Association, appeared as a witness and testified as follows:—

The Chairman: Now, Mr. MacNeill, this Bill has been submitted to this Committee not so much for the purpose of studying it and criticizing it as for getting any information available from those who have had experience in this form of legislation. I understand that you have had great experience in these matters, and for that reason you have been asked to come here and, without going through the whole of the Bill, to tell us anything that would be enlightening to the Committee.

Mr. MacNeill: The Manitoba Farm Loans Association started business on the 1st of April, 1917. The first loans were paid out some time in June of that same year. The total amount loaned up to the present time is, I think, about $9,750,000, consisting of 8,320 loans. That is up to the end of April, the end of our fiscal year.

When the Association first started there was a stock feature in it whereby it was necessary for the borrower to take stock to the extent of five per cent of the amount of the loan he got. The Government also put in five per cent at the same time, so there was ten per cent margin there. We started loaning money at six per cent.

Hon. Mr. Dandurand: From whom did you borrow?

Mr. MacNeill: The Government floated its bonds, and we in turn gave our bonds as security to them in lieu of the money we got from them, but the borrowing was done directly through the province. We got a little better rate in that way.

In 1922 money became higher, and the Board decided that it would have to raise the rate, and it was raised from six per cent to seven per cent, and the stock feature was cut out altogether. That is, where a man was granted a loan of $1,000 under the six per cent plan he only got $950, but he was paying six per cent on the $1,000, which meant about six and one-third per cent. We have never paid any dividends on that stock; it is still held as collateral security to the mortgage; but when he comes to pay off his loan it is good to the amount of the par value. Supposing he has $750 to still pay off on the loan, he would get $50 on the stock. We raised the rate to seven per cent and made it a straight seven per cent on the outstanding balance on principal each year.

Hon. Mr. Hughes: Did that include a mortization?

Mr. MacNeill: No, that was straight interest on the balance of principal outstanding. Under the six per cent arrangement the repayments were $72.65 a year for 30 years. That would retire the whole loan. Under the seven per cent arrangement the annual payment is $80.60. You see, the first year he pays $70 interest and $10.60 principal. They had the right to pay it off any time after five years, and we also give them the right to pay any amount on account on any interest date—an even amount—to bring the mortgage down to an even amount.

Right Hon. Sir George E. Foster: The $80.60 a year extinguished the debt?

Mr. MacNeill: Yes, extinguished the debt altogether. Last October we felt that the Board possibly might be able to loan at a little lower rate of interest,

and the rate was reduced to six and a half per cent. Under that six and a half per cent rate the payment is $76.58 per year for 30 years. All our mortgages are drawn for the same term.

Hon. Mr. LAIRD: Were you still paying five per cent for the money you borrowed at the time you raised the rate?

Mr. MACNEILL: We were paying six per cent at the time we raised the rate to seven per cent.

Hon. L. C. WEBSTER: You only had one per cent margin?

Mr. MACNEILL: Yes.

Right Hon. Sir GEORGE E. FOSTER: You only have half per cent now?

Mr. MACNEILL: We are able to get the money at five per cent now.

Hon. Mr. BELCOURT: Have you any reserve?

Mr. MACNEILL: Yes, $210,000 in profit and loss account, and we also set aside $65,000 against real estate reserve. That is of the 30th of April, 1925. I was not able to get the figures for the last year's operations.

Hon. Mr. BEIQUE: What amount of reversions have you on your hands?

Mr. MACNEILL: About $574,200 of real estate, and we have agreements totalling $242,300. That is resold lands to the credit of our real estate account. On those resales of land which reverted back to our hands there is a paper profit of a little over $20,000.

Hon. Mr. DANDURAND: What have you allowed for administration?

Mr. MACNEILL: We were supposed to administer on the one per cent margin. The Manitoba Farm Loan Association is probably different from other institutions in that we pay all our own salaries and all rents, corporation tax to the Government of Manitoba—the only thing we are exempt from that I know of is the Dominion Income Tax.

Hon. Mr. LAIRD: Have you figured out the cost of administration?

Mr. MACNEILL: The first annual statement we had—we had been in business about eighteen months at that time—it cost us one per cent to operate. At the end of November, 1919, seven-tenths of one per cent; November 30, 1920, seven-tenths of one per cent; November 30, 1921, one-half of one per cent. Then the Government asked us to change the end of our fiscal year to August 31, to comply with their year, and for that period of nine months it cost us two-fifths of one per cent; to August 31, 1923, it cost us three-fifths of one per cent; August 31, 1924, two-thirds of one per cent. Then we changed the fiscal year again to April 30, 1925, and it cost us half of one per cent for that period of nine months.

Hon. Mr. TODD: How do you arrive at the cost of operation? What does it cover?

Mr. MACNEILL: It covers all cost in connection with the operation of the business—paying the staff—we pay the Manitoba Telephone Commission who owns the building we are in $410 a month rent.

Hon. Mr. SCHAFFNER: Do you utilize any of the officials of the Government?

Mr. MACNEILL: None whatever. Our staff is all in our own employ.

Right Hon. Sir GEORGE E. FOSTER: That includes taxes as well?

Mr. MACNEILL: That is the corporation tax. I think we paid some $3,900 corporation tax last year to the Government. I have not got the figures.

Right Hon. Sir GEORGE E. FOSTER: What staff have you?

Mr. MACNEILL: We have, I think, 27 on our pay roll now, including outside and inside help.

Hon. Mr. TODD: That actually covers everything then except interest and losses?

Mr. MACNEILL: Yes.

Hon. W. B. ROSS: I understand that you do not pay Dominion Income Tax.

Mr. MACNEILL: No, we are exempt from that because of the fact that we were doing business solely with farmers. That is the way we got out of that.

Hon. Mr. DANDURAND: What do you owe the Provincial Government?

Mr. MACNEILL: You mean the bonds?

Hon. Mr. DANDURAND: Yes.

Mr. MACNEILL: The outstanding principal to-day is about $7,594,900.

Hon. Mr. DANDURAND: And you have paid the interest regularly?

Mr. MACNEILL: Regularly, half-yearly. There is only one issue of a million dollars that is costing us six per cent now; the rest is five per cent and five and a quarter, and the last million we got at four and a half per cent. It cost the association about 4.75, as we had to pay a premium.

Hon. Mr. DANDURAND: And you are loaning now at what?

Mr. MACNEILL: Six and a half per cent.

Hon. Mr. DANDURAND: On what proportion of the value of the land?

Mr. MACNEILL: Our Act confines us to not more than 50 per cent of the appraised value, including buildings and lands.

Hon. Mr. BELCOURT: What is the average rate of interest now on farm loans in Manitoba?

Mr. MACNEILL: I do not think I could answer. It runs from six and a half per cent to eight per cent, according to districts.

Hon. Mr. BELCOURT: You are loaning at six and a half per cent.

Mr. MACNEILL: Yes.

Hon. Mr. BELCOURT: What are other people loaning at?

Mr. MACNEILL: It has been eight per cent up to this year, but I understand there has been some cutting of rates. I do not know whether that applies to farm lands.

Hon. Mr. BELCOURT: Can you give us the corresponding rates since 1917?

Mr. MACNEILL: I think it has been pretty much all eight per cent outside of our institution.

Hon. Mr. BELCOURT: You loaned about $9,000,000.

Mr. MACNEILL: Nine and three-quarter millions.

Hon. Mr. BELCOURT: Have you refused loans? Or have you done all the business you expected to do?

Mr. MACNEILL: The total number of applications received since 1917 was about 9,000, and we made 3,820 loans. The total amount of the applications received was about $23,000,000, and we loaned nine and three-quarter millions.

Hon. Mr. SCHAFFNER: Since the first of the year farm loans in Manitoba from the best companies have been at seven and a half per cent.

Hon. Mr. DANDURAND: Does six and a half per cent include amortization?

Mr. MACNEILL: No.

Hon. Mr. DANDURAND: And the eight per cent?

Mr. MACNEILL: That is straight interest.

Hon. Mr. DANDURAND: What induces people to go to others at seven per cent and over when you loan at six and a half per cent?

Mr. MACNEILL: Well, they have to pay that rate.

Hon. Mr. BEIQUE: They want to have larger amounts.

Hon. Mr. Belcourt: What is the total amount of money outstanding on farm loans in Manitoba?

Mr. MacNeill: I never could get that information.

Hon. Mr. Belcourt: Cannot you give us an idea?

Mr. MacNeill: At one time it was thought to be about $60,000,000.

Hon. Mr. Belcourt: But you are still loaning money to all comers?

Mr. MacNeill: Yes, where we feel the investment is safe.

Hon. Mr. Belcourt: Assuming that there is $60,000,000 loaned, you have only one-sixth.

Mr. MacNeill: Yes.

Hon. Mr. Belcourt: Why is it that you have not more if you can loan at six and a half per cent and the others are charging eight per cent?

Mr. MacNeill: It may be that the Government do not feel disposed to borrow any further. It is a direct liability against the province of $10,000,000.

Right Hon. Sir George E. Foster: Do you really satisfy all the loan applications that are made to you that approve themselves to you as good loans?

Mr. MacNeill: Yes, what in our opinion is good safe business.

Hon. Mr. Beique: Have you always money?

Mr. MacNeill: Yes.

Hon. Mr. Beique: The borrowers get more than fifty per cent from the loan companies.

Mr. MacNeill: No, I do not think so.

Hon. Mr. Beique: Then, how do you explain that the loan companies can make loans at eight per cent when money can be got from you at six and a half?

Mr. MacNeill: We have had applications totalling $23,000,000, and out of that we have taken only $9,750,000 because we did not think the rest of the business was safe business.

Right Hon. Sir George E. Foster: You had only 9,000 applications that you satisfied?

Mr. MacNeill: 3,820 we have satisfied.

Hon. Mr. Belcourt: Is it that these companies do more soliciting for loans? I suppose you do not?

Mr. MacNeill: We do nothing; everything is done from the head office; we have no appraisers or agents throughout the country. We have not been advertising either.

Hon. Mr. Belcourt: To what extent would that account for the discrepancy?

Mr. MacNeill: Take a man who has been in a loan company for a number of years and gets good treatment, very often he prefers to stay there, I think.

Hon. Mr. Belcourt: And pay more?

Mr. MacNeill: Yes.

Hon. Mr. McMeans: There were many loans on these farms prior to this Board?

Mr. MacNeill: Yes.

Hon. Mr. McMeans: And they still continue to run so long as the interest is paid?

Mr. MacNeill: Yes. Of course, that $60,000,000 is only a guess.

Hon. Mr. Planta: I understood you to say that you are paying four and a half and five per cent for your money?

Mr. MacNeill: Yes.

Hon. Mr. PLANTA: Are those bonds guaranteed by the Government?

Mr. MACNEILL: Yes, it is a direct liability of the Government.

Hon. Mr. CALDER: What assistance did you get in the first place from the Government?

Mr. MACNEILL: A grant of $10,000 for organization purposes, and we paid that back in August, 1922. We didn't pay any interest on it, just the principal.

Hon. Mr. CALDER: You got no further assistance?

Mr. MACNEILL: No.

Hon. Mr. BEIQUE: It has not cost the Government anything else?

Mr. MACNEILL: No. Of course, the Government have stock in the Association on which they have not been receiving dividends.

Hon. Mr. BEIQUE: To what amount?

Mr. MACNEILL: $250,000.

Hon. Mr. BEIQUE: From the outset?

Mr. MACNEILL: Yes.

Hon. Mr. DANDURAND: Have you been paying five per cent on the dividends?

Mr. MACNEILL: No.

Hon. Mr. BEIQUE: What was the total amount subscribed by the borrowers?

Mr. MACNEILL: They subscribed up to $243,000. That is the highest point.

Hon. Mr. TURRIFF: Is there much money charged up ahead of the first mortgages that you hold under the laws of Manitoba?

Mr. MACNEILL: No, not in Manitoba. Texas, of course, come ahead.

Hon. Mr. CALDER: What other priorities are there?

Hon. Mr. TURRIFF: I have here a statement of the conditions under which certain moneys can be charged up in the provinces of Alberta, Saskatchewan and Manitoba, and there appears to be a tremendous lot of them that take priority over a first mortgage.

Mr. MACNEILL: Well, we haven't much in Manitoba. Taxes and seed grain advances by the municipalities.

Hon. Mr. MCMEANS: Do you draw any distinction in lending money and say that the man you lend to must actually reside on the farm?

Mr. MACNEILL: We carry that out as far as possible. We cannot lend on a rented farm under our Act. We do loan money to some men who are living in villages or towns who have their own help on the farm and supervise it.

Hon. Mr. MCMEANS: In the Act we are now discussing it is limited to the occupant of the farm.

Hon. Mr. DANDURAND: Of course there is the question of interpretation of "occupant."

Mr. MACNEILL: Yes. We feel that a man who is a competent farmer, and who, while he is living in the village oversees the farm and has his own outfit and pays his help comes under our Act.

Hon. Mr. BEIQUE: Has the amount of loans been increasing or decreasing from year to year?

Mr. MACNEILL: At the end of November, 1918, we had approximately $2,000,000 loaned—that is the first eighteen months. In another twelve months that amount had increased to $3,000,000; in 1920 to $4,000,000; in 1921 to $5,000,000; in 1922 to over $7,000,000; then we went very slowly for a few years.

Hon. Mr. DANDURAND: Why? Did you refuse loans?

Mr. MacNeill: We discouraged loaning when money was dear and conditions were bad.

Hon. Mr. Dandurand: For how long?

Mr. MacNeill: Two years. That would be 1923 and 1924.

Hon. Mr. Beique: At the end of 1924, what was the amount loaned?

Mr. MacNeill: The principal outstanding at the end of 1924 was $7,783,500.

Hon. Mr. Dandurand: And in 1925?

Mr. MacNeill: $7,607,900.

Hon. Mr. Dandurand: Have you increased during the last twelve months?

Mr. MacNeill: No, we have not. I have not the annual statement for April 30.

Hon. Mr. Dandurand: What was your highest figure?

Mr. MacNeill: Nine and three-quarter millions. You see, our principal is repaid every year, and that keeps reducing it.

Right Hon. Sir George E. Foster: The $9,000,000 odd is the total amount you loaned?

Mr. MacNeill: The 3,820 mortgages total $9,000,000 odd.

Hon. Mr. Beaubien: What is the outstanding amount in 1924?

Mr. MacNeill: $7,783,500; in 1925 it was $7,607,900; and April 30th was $7,594,900.

Hon. Mr. Beaubien: Since 1924 you have kept your outstanding loans at about the same figure?

Mr. MacNeill: Yes.

Hon. Mr. Beaubien: I understand that you do not refuse any applications?

Mr. MacNeill: No.

Hon. Mr. Beaubien: And you get all the money you want?

Mr. MacNeill: Yes.

Hon. Mr. McMeans: If you had any surplus of money would you have difficulty getting it out?

Mr. MacNeill: We do not have a surplus. We work on an overdraft at the bank. When we get up to that we ask for another issue and start over again.

Hon. Mr. Belcourt: Would you tell us the proportion of failures yearly since you began?

Mr. MacNeill: We did not have any foreclosures until 1923—that is six years after starting business. 1923 and '24 were bad years in the west.

Hon. Mr. Belcourt: What were the failures then?

Mr. MacNeill: Crop failures, largely.

Hon. Mr. Belcourt: How many were there?

Mr. MacNeill: We had some thirty pieces come back on our hands in 1923.

Hon. Mr. Belcourt: In 1924?

Mr. MacNeill: That totalled then 108; that would be 78 coming back in 1924. In 1925 it reached 172 parcels.

Hon. Mr. Dandurand: That is, farms?

Mr. MacNeill: Yes, farms.

Hon. Mr. Beaubien: Can you give us that in amounts for 1923 and 1924?

Mr. MacNeill: You mean, the amount of money represented?

Hon. Mr. Beique: Yes.

Hon. Mr. Beaubien: In those foreclosures.

Mr. MacNeill: Yes, I can. In 1923 it was $102,000 for those 30 pieces.

Hon. Mr. Belcourt: How much had you on loan at that time?

Mr. MacNeill: The balance of the principal outstanding at that time was $7,780,000.

Hon. Mr. Belcourt: And you had $100,000 in failures?

Mr. MacNeill: One hundred and two thousand.

Hon. Mr. Belcourt: And in 1924?

Mr. MacNeill: It reached $375,000.

Hon. Mr. Belcourt: How much had you out then?

Mr. MacNeill: We had $7,783,000—just about the same.

Hon. Mr. Todd: And last year, 1925?

Mr. MacNeill: Last year $445,800.

Hon. Mr. Calder: Those figures cover the three years?

Mr. MacNeill: Yes, they cover the three years.

Hon. Mr. Belcourt: And what was the amount out in 1925?

Mr. MacNeill: It was $7,607,000. Our foreclosures were increasing.

Hon. Mr. Belcourt: What is the proportionate increase with regard to outstanding loans? What would you say was the increase from 1923 to 1924 and from 1924 to 1925, proportionately to the amount loaned?

Mr. MacNeill: In 1923 it was $102,000; in 1924 it was $375,000; in 1925 it was up to $445,000.

Right Hon. Sir George E. Foster: Do I get that right? In 1923 there was $102,000 on account of foreclosures?

Mr. MacNeill: Yes.

Right Hon. Sir George E. Foster: Then in the next year $375,000; but that was not entirely new?

Mr. MacNeill: No, that was including the $102,000.

Right Hon. Sir George E. Foster: That was the total amount?

Mr. MacNeill: Yes.

Hon. Mr. Belcourt: Can you give us that? I think that is a very important matter. It would be interesting if we could get the proportion.

Hon. W. B. Ross: We can work that out ourselves.

Mr. MacNeill: You could work that out.

Hon. Mr. Beaubien: What did you do with the farms you foreclosed in that way? How much of those have remained in your hands?

Mr. MacNeill: We have pieces under agreement to the amount of $242,300. That is, we have resold that amount.

Hon. John Webster: Without loss?

Mr. MacNeill: With a gain of some $20,000.

Hon. Mr. Dandurand: Could you give us the total interest and instalments of principal at present in arrears?

Mr. MacNeill: Yes. We have arrears totalling $938,000 as at the 30th of April, 1926. Last year we had to disburse $170,000 for taxes, insurance, and that sort of thing. That is included in these figures, of course. And seed grain.

Hon. Mr. Planta: Are you getting any revenue out of those reverted properties?

Hon. Mr. Hughes: The taxes would be the ordinary municipal taxes?

Mr. MacNeill: Yes. A farmer very often does not pay his tax and we have to pay it for him.

Hon. Mr. Laird: Do you find in your experience any disposition on the part of farmers to defer making payments on the ground that this is a Government institution? What has been your experience with regard to that?

Mr. MacNeill: There is a little in some cases.

Hon. Mr. Laird: Just elaborate on that.

Mr. MacNeill: We made it very plain to them from the beginning that we would not stand for that sort of thing; that this would have to be run on a business basis. It was set out to them at the beginning, and we have stuck very closely to that.

Hon. Mr. Laird: Do you find any evidence of political pressure being brought to bear on you?

Mr. MacNeill: No, we have been very free from that, I must say.

Hon. Mr. Beique: You have been on it from the beginning?

Mr. MacNeill: Yes.

Hon. Mr. Todd: Mr. MacNeill, according to your figures I think you have $203,000 of foreclosed property on hand, unsold.

Mr. MacNeill: Yes.

Hon. Mr. Todd: What loss do you estimate on that, if any?

M. MacNeill: I am not admitting any loss at all with conditions coming back the way they are. All the parcels of real estate that we have on our hands, with a few exceptions, are rented and are revenue-bearing.

Hon. Mr. Todd: In that $203,000 do you add interest after you foreclose?

Mr. MacNeill: No.

Hon. Mr. Todd: That is simply the amount?

Mr. MacNeill: Yes.

Hon. Mr. Calder: On what basis do you lend your money so far as valuation is concerned?

Mr. MacNeill: We are limited to a 50 per cent valuation.

Hon. Mr. Calder: On both land and buildings?

Mr. MacNeill: Both included.

Hon. Mr. Calder: And as a matter of practice to what extent do you usually do it? What is your average valuation for a loan? Would it run to 50 per cent?

Mr. MacNeill: No.

Hon. Mr. Calder: About what will it average up?

Mr. MacNeill: I do not think it would run more than—I feel it would not run 40 per cent. I have not the total valuation.

Hon. Mr. Calder: But you think it is less than 40 per cent of the value of both land and buildings?

Mr. MacNeill: Yes, I feel confident it is. It is not more than forty anyway.

Hon. Mr. Calder: Under this legislation that we have before us the limitation is fixed at 50 per cent of the value of the land and 20 per cent of the value of the buildings. In other words, if a man wants a loan, say, on a farm that is worth $1,000, and it has on it buildings worth $1,000, he can get a loan of $500 on the land and 20 per cent of $1,000 on the buildings—that would be $200 on the buildings. In other words, he would get a loan of $700 on the $2,000 property. Now, in your case, your loan on a $2,000 property, you say, would average about 40 per cent.

Hon. Mr. HUGHES: That would be $800.

Mr. MACNEILL: A quarter-section might be worth $20 an acre for the land alone. It might have $5,000 worth of buildings on it. They are not worth that much to the quarter-section, though, and we would not consider the buildings worth that to any quarter-section.

Right Hon. Sir GEORGE E. FOSTER: What supervision have you over the expenditure of the money you lend?

Mr. MACNEILL: Just the travelling inspectors, who keep in touch after the loan is actually paid out.

Right Hon. Sir GEORGE E. FOSTER: But when you make a loan is there any agreement between you and the borrower as to the purposes to which that money will be devoted?

Mr. MACNEILL: He has to state in his application what the money is required for, and the inspector reports on that piece of property and in his report states what money is required for. All lands are inspected before they are passed on by the board.

Right Hon. Sir GEORGE E. FOSTER: What is the penalty for expenditure outside of the agreement?

Mr. MACNEILL: The loan becomes due and payable.

Hon. Mr. DANDURAND: But you are to remain the judge?

Mr. MACNEILL: We are to remain the judge.

Hon. Mr. LAIRD: You follow the usual practice of the loan companies in that regard, do you?

Mr. MACNEILL: Yes.

Hon. Mr. DANDURAND: Mr. MacNeill, could you give us a statement—if it is not ready you might prepare it and leave it with the Committee—a detailed statement of that $938,000 of interest and capital past due. You might give it classified by year.

Mr. MACNEILL: I do not know whether I could or not.

Hon. Mr. BEIQUE: Showing how it is made up.

Hon. Mr. DANDURAND: Yes, showing how it is made up.

Mr. MACNEILL: I could not say. Our payments are principal and interest combined. Suppose a man sends in $100 on account: we do not divide it into principal and interest; we just set it against the arrears.

Hon. Mr. DANDURAND: But you could give us the principal and interest, past due every year?

Mr. MACNEILL: That is the principal and interest combined?

Hon. Mr. DANDURAND: Could you do it by year?

Mr. MACNEILL: Yes. The first year it was $12,000. That is the first eighteen months. That was November 30. Our payments come due at different dates, on the 1st of October, the 1st of November, the 1st of December and the 1st of January.

Hon. Mr. DANDURAND: Can you tell us what payments are one year over due, what are two years over due, what are three years, and what are four years? Have you that information?

Mr. MACNEILL: No, I could not give you that.

Hon. Mr. BEIQUE: Could you tell us how many borrowers you have more than a year in arrears?

Mr. MACNEILL: I could not do that without the books.

Hon. Mr. BEIQUE: Approximately how many more than a year?

Mr. MACNEILL: I could not tell you.

Hon. Mr. BEIQUE: You have a good many in arrears two and three years, I suppose.

Mr. MACNEILL: Yes, we have some in arrear three years.

Hon. Mr. BEIQUE: Mr. MacNeill, do you think that it would be in the interest of your province to give up your system and take advantage of the organization under the new Bill that is before us?

Hon. W. B. ROSS: That is not a fair question. I do not think the witness ought to be asked that question.

Hon. Mr. BEIQUE: Well, no. But do you think that your farming community would work under the new Bill or under your own Bill?

Mr. MACNEILL: I could not say. No, I would not want to venture an opinion on that.

Hon. Mr. BELCOURT: May I ask you—I have forgotten the figures—what is the amount of your reserve?

Mr. MACNEILL: It is $210,600, and then $65,000 besides that, in real estate reserve; and this past year's profits are not included in that yet, because the auditors were not through.

Hon. Mr. BELCOURT: Could you not have made your reserve less and while being conservative, yet pay a dividend on the Government stock and the stock held by the borrowers?

Mr. MACNEILL: The difficulty there would be with borrowers that have stock in the Association and were in from the beginning—from 1917 up to 1922. If we started to pay dividends on that there would be some that would be in five or six years, some four years, some three years, some two years, and it would be a very hard thing to apportion the dividends. We felt the borrowers were getting cheap enough money even at the six and one-third per cent, in lieu of what it was costing the others when it went up to seven, and we thought it better to build up a reserve rather than pay dividends.

Hon. Mr. BELCOURT: My purpose is to ascertain whether you could have paid a dividend and yet carried on conservatively.

Mr. MACNEILL: We might have, the Board felt it was better in the interests of all to refrain from paying the dividend, and to build up a reserve first.

Hon. Mr. BELCOURT: Opposed to that is the impression made on your people that if they had had a dividend you would have had more loans—you would have had more applications, which would have boosted your company.

Mr. MACNEILL: Well, it is just a question whether we wanted it boosted very much, because it is a question of the Government committing itself for a large amount of money which was a direct liability on the province.

Hon. Mr. BELCOURT: Are you going to carry on that policy of not paying dividends, indefinitely?

Mr. MACNEILL: There is nothing decided about that yet.

Hon. Mr. BEIQUE: Your Board is composed of how many persons?

Mr. MACNEILL: There are four members besides myself.

The CHAIRMAN: How are they appointed?

Mr. MACNEILL: Two of them are appointed by the Government, one by the Union of Municipalities, and one by the U.F.M.—the United Farmers.

The CHAIRMAN: Your borrowers have nothing to say with regard to the creation of that Board?

Mr. MACNEILL: No. The Union of Municipalities are asked to name a man to represent them, and the United Farmers are asked to nominate a man, and then the Government appoints them.

Hon. W. B. Ross: Mr. Chairman, don't you think we ought to proceed to the next witness now?

Hon. Mr. Laird: There is just one question I want to ask the witness first. Mr. MacNeill, one of the main objections to the principle embodied in this Bill, from certain quarters, is the statement generally made that loans made by a Government institution of this kind are not received by the public in the same way as loans made by a private company, and that consequently they do not make the same effort to pay interest and repay principal. Do I understand that your experience has not been along that line?

Mr. MacNeill: Yes, I must frankly say that we have had very little trouble in that respect.

Hon. Mr. Laird: Would you go so far as to say that if this were a private company you would have been able to make more collections of principal than you have made, under the circumstances?

Mr. MacNeill: I would not admit that.

Hon. Mr. Laird: But would you say that?

Mr. MacNeill: No, I would not say that. I would not say we could have made more. I think we made all the collections that were possible.

Hon. Mr. Laird: That clears up a very important point.

Hon. Mr. Todd: Mr. MacNeill, there are one or two questions I would like to ask, because you are familiar with this Bill that we are considering. The cost to the borrower is based on interest and on expense of operation and loss?

Mr. MacNeill: Yes.

Hon. Mr. Todd: What is the loss sustained by your Board?

Mr. MacNeill: We do not admit any loss. I do not think we shall have any loss as long as the present Board is controlling.

Hon. Mr. Todd: I understand you cannot give us a statement of the amount of interest, separate from the principal, that is now due.

Mr. MacNeill: No.

Hon. Mr. Todd: They are together, I suppose.

Mr. MacNeill: In this statement I have, as I say, our payments are not divided when they come in, it is all in one item.

Hon. Mr. Todd: Can you give us any information as to how much interest is in arrear and how long it has been in arrear? Can you give us anything of that nature?

Mr. MacNeill: No.

Hon. Mr. Calder: Approximately what part of that $900,000 would be principal?

Mr. MacNeill: Well, you see, the first year is the principal. Repayments are very small, but they increase. I really could not venture an opinion about how much would be principal.

Hon. Mr. Dandurand: Because they are paying annuities practically?

Mr. MacNeill: Yes. You see, a lot of our arrears are made up possibly of taxes we had to pay, and insurance we had to pay, and seed grain advances.

Hon. Mr. Dandurand: On those foreclosures?

Mr. MacNeill: No, not on the foreclosures; on the loans. And we have had to advance a great deal on seed grain this year to assist a number of men out secured by seed grain mortgages. That is all included in the arrears, you see.

Hon. Mr. Dandurand: Do these arrears go on increasing all the time?

Mr. MacNeill: No. They have been decreasing at times.

Hon. JOHN WEBSTER: Does your company hold the insurance of the borrower, before you make a loan on land or buildings, as collateral?

Hon. Mr. BEIQUE: If you pay the insurance premium or fees, what rate of interest do you charge?

Mr. MACNEILL: The current rate; the rate embodied in the mortgage.

Hon. Mr. DONNELLY: While not a member of the Committee, there are a few questions I would like to ask. I understand that when an application is made for a loan the borrower is obliged to purchase stock or debentures to the extent of 5 per cent. Is that right?

Mr. MACNEILL: Not now. It was in the first four years we were in business, but we eliminated that.

Hon. Mr. DONNELLY: So, as a matter of fact, for the first four years, whoever applied for a loan of $2,000 would get only $1,900 and would have to pay interest on the $2,000?

Mr. MACNEILL: That is in the first place.

Hon. Mr. DONNELLY: Would his stock be returned to him when he paid his loan?

Mr. MACNEILL: Yes, it is always worth par value to him when he comes to redeem his loan.

Hon. Mr. DONNELLY: You accept it?

Mr. MACNEILL: Yes, we allow him that.

Hon. Mr DANDURAND: Before you leave, tell me if you are carrying on any other system? A system of short-term rural credit loans?

Mr. MACNEILL: There is such a system in Manitoba, but we have nothing to do with that.

Hon. Mr. McMEANS: I think that is on chattels.

Mr. MACNEILL: Short-time credits on chattels.

Hon. Mr. BELCOURT: You have read this Bill. Have you any suggestion to make to the Committee with regard to amending it or adding to it in any way?

Mr. MACNEILL: I do not know whether I—

Hon. Mr. DANDURAND: Have you examined it closely?

Mr. MACNEILL: No, I have not.

Hon. Mr. BELCOURT: How would it do, Mr. Chairman, to ask Mr. MacNeill to do that before he leaves and to give us any suggestions that may occur to him?

The CHAIRMAN: When are you leaving, Mr. MacNeill?

Mr. MACNEILL: I thought if I was through I would go this afternoon.

The CHAIRMAN: The Committee would appreciate it very much if you would make any suggestions that occur to you after going through the Bill carefully.

Hon. Mr. HUGHES: Mr. MacNeill, is the Government of Manitoba still subscribing 5 per cent of the total loans?

Mr. MACNEILL: No, not for the last four years; not since we raised the rate.

Hon. JOHN WEBSTER: In case of foreclosures, when you make a resale, how much ready cash do you demand from the purchaser?

Mr. MACNEILL: We have no set amount. Sometimes we sell without any cash at all.

Hon. JOHN WEBSTER: You just hold your loan?

Mr. MACNEILL: Keep the farm going. In addition our Bill provided that all repayments of principal as they came due and were payable had to be

invested in a sinking fund, in some securities that were guaranteed by the Dominion or by some province of the Dominion. We have a lot of Victory Bonds and some Ontario Bonds and Manitoba Bonds. We have at the present time a sinking fund amounting to $482,400.

Right Hon. Sir GEORGE E. FOSTER: How much?

Mr. MACNEILL: $482,400. That is all in Victory Bonds and Province of Manitoba and Province of Ontario.

Hon. Mr. BEIQUE: But that does not cover all that has been repaid?

Mr. MACNEILL: No.

Hon. Mr. BEIQUE: What proportion?

Mr. MACNEILL: I do not know.

Hon. Mr. BEIQUE: About?

Mr. MACNEILL: I couldn't say that. We shall have to invest some more now. We have not invested lately.

Hon. Mr. CALDER: Have you had any loss, Mr. MacNeill, on account of your borrowing money at a certain rate and lending it at another rate? Have you had any loss on that account?

Mr. MACNEILL: Not that I am aware of.

Hon. Mr. CALDER: That would be included in your operating expenses?

Mr. MACNEILL: Yes, it would be charged up as operating expense.

Hon. W. B. ROSS: When a man defaults paying his principal and interest do you go into court and have a regular foreclosure, or do you automatically take over the property?

Mr. MACNEILL: Where there are judgments and subsequent claims to ours and we cannot get rid of them in any other way, we have to go through the ordinary court proceedings to clear up the title. A lot of our stuff that has come back on our hands has come back by way of transfer. During the bad times in two years and the big wages in the States, a lot of them went across there. They got discouraged with the farm and were willing to come in and give us a transfer of the property, and we thought it was better to take transfer before they got away.

Hon. JOHN WEBSTER: To clean it up?

Mr. MACNEILL: To clean it up, because they had no way of carrying on.

Hon. Mr. DANDURAND: So the crop condition is a very great factor?

Mr. MACNEILL: Yes.

Hon. W. B. ROSS: If the property happens to sell for a great deal more does the farmer get anything out of it? Or when he gives the transfer is he done with it for good and all?

Mr. MACNEILL: He is done with it for good and all.

Hon. JOHN WEBSTER: Do you find that any of those people are coming back?

Mr. MACNEILL: Yes, they are coming back.

Hon. Mr. CALDER: Does your Board, out of the interest charged, set aside any definite part of that to take care of losses and operating expenses.

Mr. MACNEILL: No. The only provision is what we have in our profit and loss account, and each year we put by a sum for real estate reserve. The year 1923 was the first year. We set aside $25,000 out of profit and loss that year. The next year we set aside $25,000, and last year we set aside $15,000.

Hon. Mr. CALDER: I have not the exact figures. You borrow money, we will say, at $5\frac{1}{2}$ per cent and you lend it at, say, 7 per cent. You have a spread of $1\frac{1}{2}$ per cent. That, then, must take care of your operating expenses and your loss?

Mr. MacNeill: And loss, yes.

Hon. Mr. Calder: And your reserve?

Mr. MacNeill: And our reserve.

Hon. Mr. Calder: You do not as a matter of fact earmark each year a definite proportion of that?

Mr. MacNeill: No.

Mr. Calder: For this purpose. If you have a bad year you set aside less for reserve?

Mr. MacNeill: Yes. It is a matter for the Board to decide after the auditor's statement is out. We take it up and decide to "Set aside so much."

Hon. Mr. Calder: After your experience of eight years—

Mr. MacNeill: Nine years last April.

Hon. Mr. Calder: —what spread should there be, in your estimation, so far as Manitoba is concerned, in order to reasonably take care of the operations and losses and create a reserve? What should be that spread?

Hon. Mr. Dandurand: From the cost of the money.

Mr. MacNeill: It should be a little better than 1 per cent, I think, to be safe

Hon. Mr. Dandurand: Under those three heads?

Mr. MacNeill: Yes.

Hon. Mr. Calder: Would that be safe on a spread of 1½ per cent?

Mr. MacNeill: I think it would be safe. I would undertake it, I think

Hon. Mr. Calder: There is still a little doubt there.

Mr. MacNeill: I do not think there is much doubt, because as the volume of business increases, you know, the cost of overhead is not so high.

Hon. W. B. Ross: Is all your land out there on the Torrens system?

Mr. MacNeill: No, not all.

Hon. W. B. Ross: It is not?

Mr. MacNeill: It is in Saskatchewan, but not in Manitoba. In Manitoba a lot of it is under the old system title.

Hon. W. B. Ross: Does it make any difference to you in cost of handling the thing whether you have it under the Torrens system or the old one?

Mr. MacNeill: It costs a little more for a man to get his loan through under the old system than if he had a Torrens title.

Hon. Mr. Ross: I suppose the man pays for the search of his title himself.

Mr. MacNeill: Yes; we charge the man. We have a tariff we charge. We have our own solicitor in the office. We also charge a fee for inspection. It helps out some.

Hon. W. B. Ross: Under the Torrens system—

Hon. J. H. Ross: It is much easier.

Hon. W. B. Ross: It is much easier.

Hon. Mr. Calder: And does the borrower pay for the appraisal?

Mr. MacNeill: He pays $5 on any loan up to $2,000; $7 up to $5,000—$8 up to $8,000, and $10 if it is $8,000 and $10,000 if his loan goes through.

Hon. Mr. Calder: Do you take any steps Mr. MacNeill, to see that the money is expended for the purposes approved by the Board?

Mr. MacNeill: As far as possible we get the orders from the borrower, and then a cheque goes direct to the parties.

Hon. Mr. BELCOURT: So you do not find many infractions of that condition?

Mr. MACNEILL: No.

Hon. Mr. TURRIFF: Does the borrower pay any money for getting the loan?

Mr. MACNEILL: Yes, we charge him solicitors' fees for putting through the mortgage.

Hon. Mr. TURRIFF: What is that?

Mr. MACNEILL: We charge him solicitors' fees. These are certain fees for putting through the mortgage according to title he has but we pay no commission.

Hon. Mr. TURRIFF: You do not pay any commission?

Mr. MACNEILL: No.

Hon. Mr. MCMEANS: What is the largest amount of loan?

Mr. MACNEILL: We are limited to $10,000.

Hon. Mr. CALDER: Are there many $10,000 loans out?

Mr. MACNEILL: We have not made any $10,000 loans for the last five years, I think. We did make a few of them. We have not very many $10,000 loans.

Right Hon. Sir GEORGE E. FOSTER: What would be the average of your loans?

Mr. MACNEILL: They would average about $2,100.

Hon. Mr. LAIRD: Just one question. Do you not think that your long-term system, with amortized repayments, fills a want of the farming community that is not filled by the regular mortgage companies?

Mr. MACNEILL: I must admit it does. That is my own personal view about it.

Hon. Mr. LAIRD: Is it marked to any considerable extent?

Mr. MACNEILL: I think it is.

Hon. Mr. LAIRD: Do you know so?

Mr. MACNEILL: Yes.

Hon. Mr. DANDURAND: Does your lending institution act to a certain extent as a regulator? Does it affect the rate prevailing?

Mr. MACNEILL: We think it does, yes.

Mr. BEIQUE: You said that the Government paid $10,000 at the outset.

Mr. MACNEILL: Yes, for organization purposes.

Hon. Mr. BEIQUE: Now, the interest at 5 per cent on the $250,000 of stock subscribed—to about how much would it come now?

Mr. MACNEILL: Well, that is over nine years. It would run into a lot of money.

Hon. Mr. BEIQUE: Was the amount subscribed at the beginning?

Mr. MACNEILL: No, they just advanced it as required.

Hon. Mr. BEIQUE: You could not tell us what amount would be accumulated there?

Mr. MACNEILL: In the way of interest?

Hon. Mr. BEIQUE: Yes, in the way of interest.

Mr. MACNEILL: No, I couldn't.

Hon. JOHN WEBSTER: Is all your business done in one office, that has no branches?

Mr. MACNEILL: No branch office.

The CHAIRMAN: That is all. Thank you.

Hon. Mr. DANDURAND: A question has been asked as to the detrimental influence that was perhaps felt through the fact that people were borrowing from practically a Government institution. I should like to put Mr. Finlayson this question: What was the proportion of foreclosures from the life insurance companies in Manitoba? I ask in order that we may know if the proportion was greater than has been the case with this institution.

Mr. FINLAYSON: Foreclosures?

Hon. Mr. DANDURAND: Yes, foreclosures.

Mr. FINLAYSON: As I recall Mr. MacNeill's statement, they have about $7,000,000 of loans outstanding and about $280,000 of real estate on hand.

Mr. MACNEILL: Yes. Our real estate account stands at something like $574,000, and we have agreements of sale to the amount of $242,000.

Mr. FINLAYSON: But that will leave on your hands unsold real estate?

Mr. MACNEILL: About $332,000.

Mr. FINLAYSON: Which would be somewhat over 4 per cent of the amount.

Mr. MACNEILL: No; it would be $332,000.

Mr. FINLAYSON: That would be about 4½ per cent of the amount of the mortgages outstanding.

Mr. MACNEILL: Yes.

Mr. FINLAYSON: I should say that that compares fairly well with the experience of the other loan companies, the Dominion loan companies. I should say that they have on their books as foreclosed real estate to-day between 4 and 5 per cent of the amount of farm mortgages in the province of Manitoba. Of course the life insurance companies have considerably more than that. The life insurance companies have suffered very severely by adverse farming conditions in the western provinces. They lent very heavily about ten or fifteen years ago and a great many of those loans were in bad standing during the war period, and then when the slump came around 1921 or 1922, and since, a great many of these properties have been coming onto their hands. I think that in the province of Manitoba to-day the life insurance companies have real estate on their hands probably around 8 or 9 per cent of the amount of the farm loans outstanding in Manitoba.

Hon. Mr. BELCOURT: Is not that compensated in a measure—perhaps in large measure—I do not know—by the additional business the life insurance companies have secured?

Mr. FINLAYSON: Well, I couldn't say. It is pretty hard to mix up life insurance business and loaning. In fact I am not sure that there has not been too much mixing up, and that may be responsible for some of the loans being in bad standing.

Hon. Mr. BELCOURT: You admit that the companies have had some compensation in the fact that they got additional business by carrying on lending at the same time?

Mr. FINLAYSON: Some of them have; some of them have not. A great many of the companies kept absolutely distinct their loaning and their insurance operations, and those companies have not suffered as a rule in their loans so much as the companies that have tried to mix up the two. A great many bad loans in the West have come onto the life insurance companies' books through agents who were also loaning agents—insurance agents who were trying to carry on a loan business. They wanted the business more than they wanted good loans, and the loans were taken on for the purpose of securing a large block of insurance with them, and those loans have caused great losses. I do not say

that that is the rule; I think probably it is the exception; but that does explain some of the bad loans. But all the companies, regardless of how they carry on their business, have suffered largely because of those conditions.

Hon. J. H. Ross: Do you think in Manitoba they made larger loans?

Mr. Finlayson: I couldn't say offhand.

Hon. Mr. McMeans: Mr. MacNeill, the demand for lands now is of such a nature that you will probably dispose of the balance of your lands at a profit.

Mr. MacNeill: I think conditions are very much improved to what they were.

R. J. Dinning, Commissioner of the Alberta Liquor Control Board, of Edmonton, Alberta, appeared before the Committee, and testified as follows:

The Chairman: What is your title, Mr. Dinning?

Mr. Dinning: Up until recently I have been in the banking business for 22 years. At the present time I am Commissioner of the Alberta Liquor Control Board.

The Chairman: How long have you been in that business?

Mr. Dinning: Two years.

The Chairman: Are you connected with the farm loans in your province?

Mr. Dinning: We have no farm loan system in connection with real estate.

The Chairman: We communicated with the Prime Minister of your province and asked him to send someone here who knew something of farm loans. I understand now that there is no farm loan system in your province.

Mr. Finlayson: No long term system.

The Chairman: Have you anything to say with regard to this?

Mr. Dinning: Just in a general way. Mr. Brownlee asked me to come and put before you the necessity for some relief to the farmer by way of cheaper money, and I will be very glad to answer any questions.

Hon. Mr. Dandurand: What are the farmers paying for money just now on long terms?

Mr. Dinning: 8 per cent is the prevailing rate, with some a little higher. It has been said that some loans are made at 7 per cent, but I have yet to meet a farmer who has a mortgage on his land at 7 per cent.

Hon. John Webster: It is all higher?

Mr. Dinning: 8 per cent, and in some cases 9 per cent.

Hon. Mr. Laird: Can you tell us the charges that take priority to a mortgage in Alberta? I understand that is one of the great complaints out there?

Mr. Dinning: There were hospital bills to the extent of $250, but the courts ruled these were not priorities. There are municipal taxes, hail insurance premiums and Dominion Government seed grain liens.

Hon. Mr. Laird: Gopher taxes and weed taxes, and all things of that kind?

The Chairman: Will you give us the balance?

Mr. Dinning: There is a weed tax for clearing off noxious weeds. I do not know whether the poisoning of pests comes in as a priority. Those are the four principal ones.

Hon. Mr. McMeans: What about mechanic's liens?

Mr. Dinning: Well, I understand a mechanic's lien only applies to the extent that the property has been increased in value by the improvements put on it.

Hon. Mr. McMeans: Wasn't it owing to the laws of Alberta that the mortgage companies practically withdrew from the province?

Mr. DINNING: No, there are several loan companies still lending money in Alberta. They are still lending money at 8 per cent.

Hon. Mr. LAIRD: Isn't it a fact that a great many companies withdrew for that reason?

Mr. DINNING: I did not hear the representatives of the loan companies make the statement themselves. Dr. Tory told me that the loan men in Winnipeg told him, when he asked them if they would reduce the rate if priorities were released, that they would not do so. So, from that I gather that they did not pay much attention to priorities.

Hon. Mr. HAYDON: Have there been any loans made at higher than 8 per cent?

Mr. DINNING: I think 8 per cent is the prevailing rate, but in some cases 9 per cent has been charged, and 10 per cent in a few cases, I think.

Hon. Mr. HAYDON: By loan companies?

Mr. DINNING: Organizations for lending money.

Hon. Mr. HAYDON: Loan companies or insurance companies.

Mr. DINNING: Yes, I think some of them have loaned at 9 per cent.

Hon. Mr. DANDURAND: Is there not legislation for prior liens on seed grain advances?

Mr. DINNING: I would not like to commit myself on that. The Dominion Seed Relief comes as a priority, but I am under the impression that the Provincial Seed Relief does not. It comes as a priority against growing crops.

Hon. Mr. MCMEANS: I think you are mistaken.

Mr. DINNING: I would not like to commit myself as to that.

Hon. Mr. DANDURAND: What does that fodder, seed and other relief mean?

Mr. DINNING: It has been practically eliminated. That was during the severe drought of 1922-23.

Hon. Mr. DANDURAND: You have hospitals?

Mr. DINNING: Yes.

Hon. Mr. DANDURAND: And weed destruction?

Mr. DINNING: Yes.

Hon. Mr. DANDURAND: Gopher and grasshopper destruction?

Mr. DINNING: Yes.

Hon. Mr. DANDURAND: Hail insurance?

Mr. DINNING: Yes.

Hon. Mr. DANDURAND: And drainage?

Mr. DINNING: Yes. That is a very limited area.

Hon. Mr. DANDURAND: Are telephones, gas, electric light and so on prior liens?

Mr. DINNING: No.

Hon. Mr. DANDURAND: Well-boring?

Mr. DINNING: No.

Hon. Mr. DANDURAND: Mechanic's liens?

Mr. DINNING: Yes. These are not a priority except to the extent to which the property has increased in value by the erection of the improvements thereon.

Hon. Mr. HAYDON: Does the mechanic's liens apply to any extent of the country?

Mr. DINNING: To some extent, because the farmer building on his land generally asks for credit from the lumber company.

Hon. Mr. HUGHES: Do these rates of interest you speak of include amortization?

Mr. DINNING: No, they are straight interest.

Hon. Mr. HUGHES: Are there any loan companies doing amortized lending?

Mr. DINNING: I have not come in contact with them.

Hon. Mr. TODD: In 1925 you were a member of a Commission that reported on land loans. Could you let the Committee have a copy of your report?

Mr. DINNING: We really did not report. We went into consultation with Dr. Tory in making out the recommendations. Dr. Tory was Chairman of the Committee, really, and I have not read the final form of the Bill submitted to the House, but the Bill was the outcome of that Committee.

Right Hon. Sir GEORGE E. FOSTER: You stated that your instructions were to present before the Committee the difficulty of the farmers in obtaining loans. Would you make a short statement as to what they are?

Mr. DINNING: Well, during my career in the banking world, my business was almost entirely with the farmers. I was 19 years in Alberta and 3 years in Saskatchewan, and I found that the farmer who took out a five year or a ten year loan was always greatly confused when payments for principal came round, and I found he would deliberately sacrifice his livestock for the purpose of meeting the payment to the loan company. Not that the loan company was insistent, but he felt that the money was due and had to be paid at all costs. To-day we are making every possible effort to get the farmers into mixed farming. Since coming here I have been asked five times "What is the wheat crop prospect?" The continuous growing of wheat is undoubtedly robbing our soil, and we are making every possible effort to get the farmers into mixed farming. It has been said that the difference between 6 per cent interest and 8 per cent interest is only $60 on a $3,000 loan. That is a very great item to the farmer. In 10 years it will establish him with a fine dairy herd which will be a splendid revenue producer. Speaking personally, it would not worry me if the farmers of Alberta were never out of debt if they were using the funds for the benefit of the district. The farmers are making some headway, but it is not great. At the same time, a great many of them are robbing their soil and will ultimately pay for their present prosperity.

Hon. Mr. HUGHES: Does that apply more to southern Alberta than to northern Alberta?

Mr. DINNING: Well, it applies in all the eastern part, all near the Saskatchewan line, and south of central Alberta.

Hon. JOHN WEBSTER: Are they adopting the principle of going into mixed farming throughout the province?

Mr. DINNING: They are in certain portions, but we are only beginning.

Hon. JOHN WEBSTER: Are they all more or less keeping hogs and cattle?

Mr. DINNING: Not to the extent that we would like to see them doing it. I would say only about 15 per cent of the stock that we would like to see is grown.

Right Hon. Sir GEORGE E. FOSTER: What they need seems to be some system by which loans can be got at a cheaper rate and over longer periods.

Mr. DINNING: Yes, sir.

Hon. Mr. CALDER: Why hasn't Alberta followed the example of Manitoba and Saskatchewan? They have each loaned about $9,000,000.

Mr. DINNING: $8,000,000 or $9,000,000 will probably not seriously affect the credit of any particular province, but when the amount becomes larger it is going to be a serious matter to finance.

Hon. Mr. CALDER: Not if you have good security.

Mr. DINNING: The authorities in the United States, in advising Dr. Tory, who will speak for himself, strongly urged a central organization, a national undertaking.

The Hon. the CHAIRMAN: You mean that the expenses would be paid by the state or the province?

Mr. DINNING: Not necessarily the expenses, but that it should be a joint affair.

Right Hon. Sir GEORGE E. FOSTER: And you think the principle of this Bill would be acceptable to Alberta?

Mr. DINNING: Generally speaking, I think it would be quite acceptable.

Hon. JOHN WEBSTER: What appears to be the objection to more mixed farming? Is it the care that the cattle demand?

Mr. DINNING: I think to a large extent it is the lack of money to get housing accommodation. There is no reason why we should not be feeding thousands of stall-fed steers, but we haven't the housing accommodation.

The Hon. the CHAIRMAN: What about the labour?

Mr. DINNING: The labour is available.

Hon. JOHN WEBSTER: Then it does not pay to feed steers outside?

Mr. DINNING: Not the stall-fed product.

Hon. JOHN WEBSTER: It does to grow them, but not to finish them.

Mr. DINNING: The same thing applies to sheep and hogs.

Hon. Mr. DANDURAND: Is dairying not increasing?

Mr. DINNING: I think last year it was down 10 per cent.

Hon. JOHN WEBSTER: How many cheese factories have you in Alberta?

Mr. DINNING: I think we have just twelve.

Hon. JOHN WEBSTER: But several more—

Mr. DINNING: Creameries.

Hon. JOHN WEBSTER: What do they do with the product of the skimmed milk?

Mr. DINNING: A great deal of it is fed in the stockyards.

Hon. Mr. DANDURAND: Have you any idea what is the reason of the reduction in dairying?

Mr. DINNING: I think it is because the farmers are paying too much attention to grain growing. The cattle market is not good; dairy markets are good.

Hon. Mr. MCMEANS: Isn't it because of the United States tariff which has brought the price down?

Mr. DINNING: The price of cattle?

The Hon. the CHAIRMAN: Have you institutions there which lend money for short terms?

Mr. DINNING: Yes, we have the rural credit societies. They were more or less to help the man who was not in a position to seek assistance from the bank. They have loaned out in all about $3,000,000, and they carried over from last year about $500,000.

Hon. Mr. MCMEANS: That is lent on chattels?

Mr. DINNING: Yes.

Hon. Mr. TODD: They made a loss.

Mr. DINNING: The losses on the $3,000,000, I understand, will not run above $25,000, and that was during the very severe slump in the prices of live stock.

Hon. Mr. BEIQUE: How long has that been in operation?

Mr. DINNING: I think they started in 1919.

Hon. Mr. TODD: Alberta did some loaning for seed?

Mr. DINNING: Yes.

Hon. Mr. TODD: How did that turn out?

Mr. DINNING: In some districts it didn't turn out very well. The last two or three years there have been important recoveries made. I have not the figures.

Hon. Mr. DANDURAND: In the dry belt you had three or four years without any crop.

Mr. DINNING: Yes, some districts suffered four straight crop failures. That is the south-eastern part.

The Hon. the CHAIRMAN: Now, Mr. Rowell, would you care to make a statement to the Committee?

Hon. N. W. ROWELL: I should prefer, Mr. Chairman, that the statement be made by those perhaps more intimately associated with the companies than I am. While I happen to be the president of one of the companies, there are others here who are more closely in touch with the whole lending situation, and who, I think, could give more valuable and detailed information than I could give.

May I state generally that the Canadian Mortgage Investments Association represents the principal mortgage lending companies in Canada—that is the Life companies, the Loan companies, the Trust companies. We are not here to oppose this Bill, not because we think it is a necessary Bill or in the public interest, but we think that is for Parliament to decide. We are here to give you such information as we have in our possession relating to the general loaning situation throughout Canada—the cost of doing business, the losses sustained, the difference in the cost of doing business in different sections of the country, the difference in the cost of doing business in the country and in the city, and similar matters. Mr. Rundle, who is a member of the committee of the Dominion Mortgage Investments Association, has given particular study to this problem not only in Canada but in the United States, and to some extent has studied the systems in Europe. He will speak on these points.

Hon. Mr. DANDURAND: I think I can see upon what point of the Bill the interest of this association is focussed. Can you tell us the precise point which will be discussed so that we may fix our minds upon that. Is it the fear that the 1 per cent limitation upon the cost of operation put in by the Commons does not give a sufficient spread?

Hon. Mr. ROWELL: That is one of the points, Mr. Chairman. I think the testimony we will give you this morning will show that the actual experience in Western Canada is that it costs more than 1½ per cent to do business. We will give you the facts in reference to that, and you will be the best judges whether a Government loaning institution will do business more economically than the loan companies. Therefore we think that the Commons amendment, if adopted, places the system on a false basis.

Our attitude is this. No one, of course, welcomes Government competition in a field like this where the Government is in a position to get money cheaper perhaps than the companies; nevertheless, if the system is put on a basis to pay its way, and there is a guarantee from the start that it is on a sound financial basis, we will have to do our best to meet the situation. The information we will give is to make clear the cost of doing business in the different sections of the country, because if the business of this Board is likely to be confined to western Canada, you will have an entirely different cost than if the business were done in eastern Canada or over the whole of Canada.

The same is true as to the reserve for losses. You must adopt an entirely different basis. We will give the facts, and you will judge for yourselves. As to foreclosures, it will be shown that there is no comparison at all. I know of one company operating very extensively in Toronto and vicinity that has had only one foreclosure in 26 years, and hundreds on western properties.

Hon. Mr. HUGHES: But different properties?

Hon. Mr. ROWELL: Quite true, they are largely city properties in the east, and farm properties in the west. We felt that it was our duty to lay the facts before you so that you may judge what is in the public interest.

As the Bill appears to be based to some extent on the investigations conducted by Dr. Tory in the United States and elsewhere, we would have been very glad indeed if Dr. Tory's statement could have been made before the Committee, but if we are not to have an opportunity of dealing with some of his recommendations at a later date, we might consider it desirable to make some representations in reference to them this morning, although we would prefer to leave that matter until we have heard Dr. Tory. However, we are in the hands of the Committee.

Mr. W. E. RUNDLE appeared as a witness before the Committee and testified as follows:—

By the Chairman:

Q. Your address is Toronto?—A. Yes.

Q. What is your position?—A. General Manager of the National Trust Company.

Q. Mr. Rundle, you have heard the evidence this morning and you know pretty well the situation. The Committee would be glad to have any general statement from you with regard to the matters that relate to this legislation. You may leave over until Dr. Tory has given his evidence some particular things as to which you should have the right to reply. I think it is only fair that you should, and the Committee would want that evidence. In the meantime you may make a general statement.—A. Mr. Chairman, I have been connected with the mortgage loan business for forty years. I began as a junior with the Freehold Loan Company in 1884. That company was then lending in Eastern and Western Canada. I have therefore had the experience which goes with those years. At the moment we all know certain parts of Canada are passing through a rather trying experience. It is not the first time that parts of this country have passed through very similar experiences. My observation is that we General Managers, responsible as we are for the loans which have been made, naturally take as hopeful a view of the loans as possible. Therefore when we go into the record of results, such as foreclosed properties at present on our hands, etc., etc., and what our losses are likely in respect of them, we take a conservative view—a hopeful view. As this question of losses in respect of foreclosures is one of the questions I have heard discussed here this morning, I might be permitted to make some observations now on that subject.

As Mr. Rowell said a moment ago it is difficult to say just what the losses are going to be, but you will be interested in a statement of our own company's mortgage business and it will serve somewhat as a concrete illustration. I have no objections to giving these figures. The National Trust Company on the 31st of December last had $6,871,000 out on mortgage in the East—I want to show a comparison between the mortgage east of the Great Lakes and that west of the Great Lakes.

By Hon. Mr. Hughes:

Q. What provinces would your eastern mortgages include?—A. The province of Ontario. Our mortgage loan business in the province of Quebec is not

large as yet. It is however equally as favourable as Ontario mortgages. We have out on mortgage in the West $9,151,000.

Q. That is in the three Prairie Provinces?—A. Yes, sir. We are lending in Manitoba, Saskatchewan and Alberta. On the 31st of December, in respect of the $6,871,000 on mortgages in the East, we had $12,551 of interest in arrears.

By Hon. Mr. Calder:

Q. Mostly on urban property?—A. Yes. In respect of the $9,151,000 of mortgages in the West—we had interest in arrears of $256,003; as against $12,551 only, in the East. We had advanced to meet borrowers' charges—such as taxes, $205 in the East, only. We had advanced $194,666, however, in respect of our western mortgages. These advances covered taxes, costs, seed grain, insurance, etc.

By Right Hon. Sir George E. Foster:

Q. Just what was that amount in the East?—A. It was $205, sir.

Q. And in the West?—A. In the West, $194,666. The amount of interest in arrears, for a period of six months and upwards, in the East was $548 in respect of the $6,871,000 of mortgages. The interest in arrears in the West for a period of six months and upwards in respect of the $9,151,000 was $142,748.

By Hon. Mr. Turriff:

Q. Would you please give the rate of interest—the average rate of interest?

The CHAIRMAN: Let him finish his figures.

Hon. Mr. BEIQUE: Let him proceed.

Right Hon. Sir GEORGE E. FOSTER: It seems to me we should take a general statement, rather than cut it all up into answers to questions.

Mr. RUNDLE: Properties on hand under foreclosure: In the East we had one property on hand under foreclosure, and it is the only one in twenty-seven years' experience. Our claim against that was $3,024. In respect of our Western business we had on our hands, through foreclosure, $726,488 worth of property.

By Hon. Mr. Calder:

Q. That is over a period of years, Mr. Rundle?—A. Yes, sir.

Q. That is the total?—A. That is the result, the net result as of the 31st of December last. That does not mean that we have not at times had to foreclose other properties, but that is the amount of foreclosed property which we had on hand on the 31st of December last; the total amount we have now for sale.

By Hon. Mr. Haydon:

Q. Over how many years have you been lending in the Western provinces?—A. Twenty-seven or twenty-eight years.

Q. The same period East as West?—A. The same period exactly. Now, the matter of cost of doing a mortgage business was also referred to. I have some figures here which go to show that the average cost to the mortgage loan companies as shown by the Government Blue Book is in the case of companies which are Dominion companies, with a Dominion register, 1.70 per cent, and in the case of those companies which make their returns to the Ontario Government, 1.78 per cent. The companies which make their returns to the Dominion and to the province of Ontario practically cover—they do not quite cover—the mortgage lending field so far as Canada is concerned. There are a few companies in the West which register with the Manitoba Government, but the figures I have given practically cover the whole field so far as the lending companies are concerned.

By Hon. Mr. Dandurand:

Q. It is the cost of administration?—A. Yes, sir.

By Hon. Mr. Hughes:

Q. The cost of administration only?—A. Yes. I am dealing now only with the cost of administration. Now I will give you the experience of my own company. Our average cost in lending money on mortgage, at all our offices—we have offices in Montreal, Toronto, Winnipeg, Saskatoon and Edmonton—is 0.98 per cent—Just under 1 per cent. The cost at our Eastern branches is 0.56 per cent. The cost of doing business at Western branches is 1.56 per cent, without taking into account anything for losses.

By Hon. Mr. Calder:

Q. Or reserve?—A. Yes.

By Hon. Mr. Belcourt:

Q. In both cases?—A. In both cases, the difference between Eastern and Western loans, sir, as I interpret it, is experience shows that the mortgage lending business is on such a basis that there is practically no loss when carrying on east of the Great Lakes. Practically no provision for losses has to be made. On the other hand, substantial provision must be made for losses on our Western business.

By Hon. Mr. Beique:

Q. I thought those figures were for administration only?—A. Quite. That is what I say, sir. The 1.70 and the 1.78 are figures for administration only. Our own experience of 1.56 and 0.56 cost is altogether outside of any provision for losses; just cost of administration.

Might I just remark here: the gentleman who was before you just now representing the Manitoba Farm Loan Board referred to that board's cost of administration. May I point out that the Manitoba Board has nearly $500,000 of stock subscribed by the Government and the borrowers, on which no interest is paid. If we companies could get $500,000 on which we had to pay no interest, our costs would be less accordingly. But the taxpayers of Manitoba must foot the bill.

Another thing which occurred to me as I heard that evidence was this: I understood in the case of the Manitoba system the money came to the Manitoba Farm Loan Board direct from the Government, the Manitoba Farm Loan Board delivering to the Government its bonds. Now, what one queries is, if that is the whole transaction, then there is no charge for cost of getting money to the Farm Loan Board; the cost of getting that money would be borne by the Manitoba Government, and therefore by the general taxes of the people. If I am right in that, then it would be only fair, I submit, that there should be added to the cost the Manitoba Farm Loan Board shows whatever it costs to get that money, for that cost must come out of the general taxes of the people.

By Right Hon. Sir George E. Foster:

Q. But you did not give us, did you, the provision for losses in the West? —A. No, Sir George; and I am going to be perfectly frank with you on that question.

Q. You have not forgotten it?—A. I don't believe there is any one who can at present tell you what provision should be made for losses. The mortgage lending companies of this country have now on their hands from $25,000,000 to $30,000,000 of foreclosed properties. In round figures that is 10 per cent of their total loans in the West. We do not know what loss we are going to sustain. The future alone will tell.

We can perhaps form some estimate by reverting to the experience of the companies of twenty-five or thirty years ago when Canada passed through the distressing period of the nineties. The loan companies then were compelled to take over a large number of foreclosed properties. Then, like now, the companies were hopeful that their losses would be within a modest compass. They were optimistic; they were hopeful. It was natural they should be. It must be borne in mind that the companies are large borrowers of money from the public and that therefore when issuing their statements to the public they must err, if they err at all, on the side of conservatism. This broad general attitude of conservatism in the matter referred to applies, however, to those responsible for the management of farm loan boards just as well as to the managers of companies. Whether one is manager of a government institution lending on mortgage or of a company, human nature is the same. But we do know that the losses on foreclosed properties which ultimately had to be met twenty-five or thirty years ago were very great,—far greater than was expected. To illustrate: The losses were so great that four of the largest mortgage lending institutions in Canada were forced to come together at that time in an amalgamation in order that the amalgamated company might seize the opportunity of amalgamation to write off the heavy losses which had been incurred by the four companies and thus reassure public confidence. The shareholders of the four amalgamating companies had to submit to a severe writing down of their shareholdings.

I do not think there is any one more hopeful of the West than I am. My company, like others, have played a good part in the West. We went there in the pioneer days. We pushed out before railways. We took our risks. We cannot tell you now what our losses are going to be, I do believe they will be considerable. I do not believe we shall have as bad an experience as that of the nineties but we are going to lose money, a considerable sum of money, and when the loss is ascertained it will have to be added, to the 1.56 per cent cost of administration.

By Hon. Mr. Hughes:

Q. On what basis did you make your valuation in the West?—A. Usually we lend 50 per cent of our inspectors' valuations.

Q. On the land?—A. On the land and the buildings.

By Hon. Mr. Calder:

Q. Mr. Rundle, just on that point: You have made provision through the years for taking care of possible losses?—A. We have taken out of our general profit and loss account from year to year certain sums of money and set them aside, so that we believe whatever loss we sustain has already been provided for. So there is no question at all about the correctness of the statement that to the 1.56 will have to be added whatever amount we find we lose.

By Hon. Mr. McMeans:

Q. It has not affected your reserve at all, Mr. Rundle?—A. I beg your pardon?

Hon. Mr. Beique: It will affect it.

Hon. Mr. Dandurand: Yes, but in operation they stand to be losers up to a certain percentage of losses.

Hon. Mr. McMeans: But they still keep building up a reserve.

By Hon. Mr. Calder:

Q. Has your reserve been called on at all to take care of part of these losses?—A. Not as yet.

Q. Your reserve is intact?

By Hon. Mr. Hughes:

Q. You have not had to add anything to your 1.56 for losses?—A. Not as yet, but we still have this large amount of foreclosed property on which the loss has yet to be ascertained. Up to last year there was no demand for property, but in 1925 there was a little demand for property and we sold some properties and on balance we were a little ahead. But what happened? Naturally what always happens: the good properties are first picked up. Our experience is that on the properties that are being now sold we are meeting with substantial losses, this is inevitable. As the properties are sold the best go and the worse remains.

By Hon. Mr. Dandurand:

Q. Are you not providing that reserve partly by the difference in rate that you are charging in the West, in comparison with what you are charging the East?—A. So far as my own company is concerned, Senator, if you made an analysis of our books, I believe you would find we are really providing for these losses partly at least out of our trusteeship business. A Trust Company is fortunate in that, in addition to its mortgage lending business, it does a trusteeship business for which it gets paid on a commission basis. One of the reasons why we have been able to set up the reserves we have set up is because of this large trusteeship business we do on a commission basis.

Hon. Mr. BEIQUE: But that does not answer the question.

Hon. Mr. DANDURAND: No, you have not answered my question, because it would come back to stating what rate you are charging in the West in comparision with what you are charging in the East.

By Hon. Mr. Hughes:

Q. Would you have any objection to stating the amount of the reserve, or the percentage of the reserve to the loans?—A. I have no objection. We have set up reserves of about $500,000, but these reserves have not entirely come out of the difference between the rate of interest at which we have lent in the West and the rate at which we borrow. Some of these reserves have come out of our general profits, and some of those profits come, as I say, from our trusteeship business.

By the Chairman:

Q. All over Canada?—A. All over Canada.

By Hon. Mr. Hughes:

Q. What percentage would the reserve be to the total of the loans?—A. I could not tell you that, as I have not got the figures before me.

By Hon. Mr. McMeans:

Q. Mr. Rundle, your company is in a rather different position from the ordinary loan company: you do not go out and sell bonds of the company at a low rate and lend at a higher?—A. We do not sell bonds, but we get money from the public on what we call our guaranteed trust certificates. It is much the same position as the loan company's operations..

Q. I thought it was chiefly that your funds were lent from trust estates that had a large amount of money that could not be distributed until a certain event arrived. You invest those moneys, do you not?—A. We do. But the figures I am giving you are figures in respect of the company's own capital and guaranteed funds.

Q. There is just one thing more I would like to be sure of, as to the cost of your lending money. It used to be the practice—I do not know whether it is now or not—that you paid 1 per cent commission to any man bringing in a loan in the West.—A. Yes, sir.

Q. The Farm Loan Boards do not pay any. That would make quite a large difference in the cost.—A. If they do not pay a commission that would make a difference of .20 per cent per annum on a five-year loan.

Q. You do not pay the same commission in the East as in the West?—A. Yes. I do not think the commission is quite as general, but we pay commission in the East.

By Hon. Mr. Haydon:

Q. What is the average rate of lending in the East?—A. We are lending in the East to-day at 6 and 6½ per cent, and we are lending in the West at 7 per cent to-day.

By Hon. Mr. Schaffner:

Q. All over the West at 7 per cent?—A. Yes, sir; we are lending at 7 per cent, and have been for some months.

By Right Hon. Sir George E. Foster:

Q. That is, your own company?—A. Our own company, yes.

By Hon. Mr. Turriff:

Q. Do you lend any money at more than 7 per cent?—A. At the moment?

Q. Well, the past year.—A. Yes—but not more than 8 per cent.

By Hon. Mr. McMeans:

Q. That is, the rate has decreased in the last few months?—A. Yes, the rate for borrowing money has come down; and the benefit has been passed on to the consumer. Debentures and guaranteed certificates are now selling at a less rate than what was being paid a year ago, for instance. We are not paying more than 5 per cent now.

By Hon. W. B. Ross:

Q. It means that money is cheaper?—A. Yes, sir, and we are passing the benefit to our borrowers. And may I say what I think has been the principal cause of all the agitation in the West regarding interest rates. During the war the Government of Canada appealed to all the companies to buy the bonds of Canada; the companies responded. The result was to direct money from mortgage loans to the Government to carry on the war. But while the war was on and for 2½ years after the farmers, because of the high prices they were getting for their products, could easily finance their requirements from the banks. They could get along with much less assistance from the loan companies. Then came the sudden drop in the price of wheat in the fall of 1921. The farmers felt the pinch and were met with pressure. They turned to the loan companies and said: "Give us money." But we didn't have the money. Moreover, during the war and after the loan companies paid as high as six per cent for money. Five and a half per cent, and five and three-quarters per cent were common rates we had to pay. Governments themselves were paying these high rates. How could we turn around and lend money even if we had it with the cost of operation I have indicated to you at less rates than we have been lending.

And may I say at this point that in December of 1924 a meeting was called of the Canadian Agricultural Council. It took place at Winnipeg. Dr. Tory acted as chairman. The farmers were represented, the loan companies were represented—every other interest was represented, I think. The main findings of that meeting, which were unanimous, were: first, that in view of the circumstances, eight per cent was not an unreasonable rate; it should be the maximum rate, but it was not an unreasonable rate; second, that the priorities which had been placed by the provincial legislatures ahead of a first mortgage, largely

altering the position of the first mortgage since it was taken, were a very severe handicap to the West in getting money, and also a danger to the companies; third, the Council thought that the situation would be met if the mortgage lending companies could work out some kind of a long term mortgage.

Now, gentlemen, as to the latter my experience is that the farmers do not want a long term mortgage generally speaking. Mr. Smith of the Canada Permanent Loan Company, whom I hope you will hear, has had a good deal of experience in this matter. I think he will have some very interesting information to give you. You go to the farmer and suggest to him that he take a thirty-year mortgage, and you will find difficulty. I admit that some will take it; some have done so through the Farm Loan Boards; but my experience is that the great majority of the farmers do not want the long term mortgage, the thirty-year mortgage. They do not want to commit themselves for thirty years.

Hon. Mr. Hughes: But if they get it on the amortization plan, would that make a difference?

Mr. Rundle: I do not think so, because when the farmer comes to work out the plan he finds his real interest rate is say six and a half per cent, then he adds one or two per cent for amortization. He pays that in addition to the interest rate. What he will look at is the interest rate and the idea of committing himself for thirty years. That is my experience of the farmers in discussing this with them. My experience is they do not want it.

Hon. Mr. Beique: If they have the privilege of paying before maturity, won't it answer the objection?

Mr. Rundle: All I can say is it is not my experience. You have also the experience of the gentleman who gave evidence here this morning on behalf of the Manitoba Farm Loan Board. He said the interest rate they were charging is less than that of the companies, and yet he says they are not getting more business than they can take care of. There must be some reason for it. My own view is that the farmers in Canada generally speaking won't take the thirty-year mortgage.

Hon. Mr. Belcourt: How long have we had the advantage of thirty-year loans with amortization in Canada?

Mr. Rundle: In recent years not very long ago, except in so far as the Farm Loan Boards are concerned, we had the amortization plan and it was discontinued.

Hon. Mr. Belcourt: You refer to the building societies?

Mr. Rundle: No, a subsequent development to the building societies, when the building societies passed out and the straight loan societies came in. Take, for instance, the company I was with 40 years ago, the Freehold Loan Company. It had amortization loans, but from time to time legislation was passed which in effect prevented them. The history of loaning stands against them. They used to be made but objection arose to them in the minds of the people, and legislation was passed which in effect did away with them. I admit that in those days there was no provision in the mortgage that they might pay off at an earlier period. I think such a provision will unquestionably help. But by and large, taking the pros and cons, I do not believe that the amortization plan will make a very great appeal to our Canadian people.

Hon. Mr. Belcourt: You admit that the system has been very largely resorted to in Europe.

Mr. Rundle: Quite.

Hon. Mr. Belcourt: And with great success.

Mr. RUNDLE: Quite. European conditions, sir, are entirely different from ours. Let us compare them. In Europe there is density of population as against the sparseness of population in Canada. In Europe a foreclosed property is almost a curiosity as against the situation we have here in Canada in this respect. The rates of interest paid in Europe in recent years are relatively as high as rates in Canada. I submit, we in Canada are at no disadvantage over European mortgage borrowers.

Hon. Mr. DANDURAND: You believe that many farmers would prefer to borrow on the five year plan?

Mr. RUNDLE: Yes.

Hon. Mr. DANDURAND: Because of their optimism and conviction that they can free themselves within five years?

Mr. RUNDLE: Yes. They do not like the idea of debt hanging over them.

Hon. Mr. BEIQUE: They would patronize companies like yours.

Mr. RUNDLE: I believe if all things were equal, or nearly equal, they would prefer a five year loan.

Hon. Mr. MCMEANS: Do not the generality of the loan companies compel a payment of principal every year?

Mr. RUNDLE: Many adopt that policy. In our company we do not. We usually leave that optional with the borrower. If the borrower wants to pay off so much, say up to one-fifth, we give him the privilege; but we do not insist, because we take the view that if your security is safe, why get in your money. It is only going to cost you so much more to put it out again. Our inspectors keep in close touch with the loans we have made. We think in making a loan the five year basis is a good one. Unless something very unusual happens nothing is going to materially depreciate the property in five years. The inspector of a lending company says: "The borrower is a good man in my opinion; his property is good; it is being well farmed; it is worth $2,000." We say: "All right, we will lend him $1,000 for five years." We won't ask him to repay anything. If he wants to pay something we say: "Well, you can pay up to one-fifth each year."

Hon. Mr. MCMEANS: That is not the policy pursued by all the companies.

Mr. RUNDLE: No.

Hon. Mr. MCMEANS: My experience is that it is just the opposite.

Mr. RUNDLE: A good many do.

Hon. Mr. BELCOURT: What about the borrower who, at a given date, has got to get the whole sum? A man borrows $10,000 on his farm; it is payable in five years; he has got on a certain date in June, five years hence to pay the whole of that sum. It is a very great difficulty for him to get the whole of that sum paid at a given date.

Mr. RUNDLE: Theoretically that is so, practically there is no difficulty, because if a man has kept up his property he can get his loan renewed. There is no difficulty in getting it renewed. We do not want good loans paid off.

Hon. Mr. BELCOURT: That is from the point of view of the lender. But if a man borrows for five years, and during those five years cannot find $100 or $200 to pay on account of principal, he is not carrying on successfully to himself.

Mr. RUNDLE: All I can say, having regard to my experience, is that if a man's loan is coming due to-morrow—a five year loan—he can get it renewed without difficulty if he has good security. If there was, as is suggested, a strong and urgent demand upon the part of the borrower for long term loans, why have we not heard of it before? How is it, when we have discussed it, that we find the opposite view? I am speaking as the practical man who is in touch with the situation.

Hon. Mr. BELCOURT: Let us think for a moment of debentures. That principal would apply to debentures. Every Province requires from school boards the principle of amortization. School corporations have to amortize their loans. If it is an advantage to a school community, why is it not an advantage to the individual?

Mr. RUNDLE: I am not saying that it is not. My answer to that is that evidently the school district wants it and the demand is met. The answer to the other is that the demand is not there, and has not to be met. If the borrowers of this country so desired, we would have to make loans for thirty years; we would have to find some way to meet the demand, or go out of business.

Hon. Mr. CALDER: You have the fact that in the Provinces of Manitoba and Saskatchewan there were a sufficient number of farmers demanding that kind of loan to create a condition requiring those Provinces to loan out $18,000,000.

Mr. RUNDLE: Quite.

Hon. Mr. CALDER: As a matter of fact, if the Governments of those two Provinces were prepared to lend freely that $18,000,000—it might be $30,000,000 or $50,000,000, as a matter of fact they have kept a tight hand on it; but notwithstanding that tight hand, they have loaned $18,000,000 under the scheme, you cannot say there is no demand.

Mr. RUNDLE: No. I do not say there is no demand. But, Senator, you have the fact that in Manitoba and Saskatchewan the lending companies have $200,000,000 out on mortgage, and in addition to that—

Hon. Mr. CALDER: That is both urban and rural.

Mr. RUNDLE: Yes. It is mostly rural. The great mass of the lending in the West is on farm property. There are $200,000,000 out, and on the part of these two farm loan boards $18,000,000 only. Of course, I quite recognize what you say, that if there was money available to a much larger extent it might be availed of; but I really do believe that, notwithstanding all that, there is not the demand for long term loans that some friends of that system think there is. However, that is but an expression of my own opinion.

Hon. Mr. CALDER: Take the situation in the United States. I think we have had the statement here that somewhere about two billion dollars has been loaned under a somewhat similar scheme in that country.

Hon. Mr. BELCOURT: And in a very short time.

Mr. RUNDLE: One billion loaned by the United States Farm Board, which is a quasi Government institution, and an additional $500,000,000 by what is known as the Joint Stock Farm Loan Board. But, Senator, after all, one and a half billion dollars is, I am informed, a small percentage of the total mortgage loans in the United States.

Hon. Mr. BELCOURT: Well, they have been operating for only five years, since 1919.

Mr. RUNDLE: Since 1917.

Hon. Mr. BEIQUE: I understand that companies like yours can command money for the purpose of loaning at a rate of five per cent or below five per cent.

Mr. RUNDLE: At five per cent.

Hon. Mr. DANDURAND: You are receiving deposits at four per cent?

Mr. RUNDLE: Yes. But those moneys are subject to demand. Our experience is that it is not safe to lend on mortgage more than about fifty per cent of deposit moneys; therefore the other fifty per cent has to be loaned on liquid securities. We have also to keep a percentage of our deposits in cash.

Therefore when one compares four per cent on deposits with the five per cent rate we pay for money for five years, these disadvantages so to speak must be borne in mind.

Hon. Mr. BEIQUE: Approximately what is the amount on deposit at four per cent in companies like yours in the Dominion?

Mr. RUNDLE: I cannot give you those figures offhand. I think the companies registered with the Ontario Government, and which I think include the main mortgage lending (loan, and trust) companies, have deposits of something less than $30,000,000, whereas their debenture moneys would be five or six times that.

Hon. Mr. BEIQUE: Another statement you made was that the rate necessary to take care of administration and losses is much larger in the West than in the East.

Mr. RUNDLE: Yes.

Hon. Mr. BEIQUE: You stated the figure, as far as administration is concerned, but you did not state the figure for losses. I understand that you are unable to state what that would be.

Mr. RUNDLE: Yes, sir.

Hon. Mr. BEIQUE: Could you give us an idea of what would be a safe percentage to exact to cover both administration and losses in the West?

Mr. RUNDLE: My idea would be that it would be unsafe to count on less than .50, or one-half of one per cent, to meet losses.

Hon. Mr. BEIQUE: And what is the difference between the West and the East?

Mr. RUNDLE: In the East, sir, we eliminate the element of losses. There is practically no loss.

Hon. Mr. BEIQUE: You would eliminate the one-half per cent?

Mr. RUNDLE: The one-half per cent, yes, in the East.

Hon. Mr. CALDER: If you get money at five per cent and loan it in the West at seven per cent, you make provision by the two per cent for cost of administration and losses?

Mr. RUNDLE: Yes.

Hon. Mr. CALDER: You have a spread of two per cent, and that takes care of the cost of administration, reserve for losses, and dividends to your stockholders?

Mr. RUNDLE: Quite. And might I say, Senator Calder, that so far as our company is concerned, if we had never gone into the West but had stuck to the East we would have been better off, we have made money in the West; not very much. We have done pioneer work there. We have a service side (a trusteeship side) to our business too. In this respect the trust companies are in a better position than the loan companies—but notwithstanding, if the National Trust Company had never gone into the West, but had invested its money in the East, it would have made more profit up to date.

Hon. Mr. BEIQUE: But you believed in the West?

Mr. RUNDLE: And still do, sir. What we have done is at a considerable cost. We hope sometime in the future to be repaid for our efforts, but we do not see repayment coming during the next few years.

Hon. Mr. BELCOURT: Is there any provision in your charter which prevents you making these long term loans with amortization?

Mr. RUNDLE: I do not think there is.

Hon. Mr. BELCOURT: You probably have that power.

Mr. RUNDLE: I think we have; and if we have not, I think we could get it. I will be perfectly frank in saying this: In 1924 when the thirty-year provision, the amortization loans, were spoken of—

Hon. Mr. BELCOURT: You mean spoken of by the companies?

Mr. RUNDLE: No, by the Council of Agriculture meeting in Winnipeg in 1924. That conference put the greatest stress on the amortization plan. Now, I think if the last two years had been more normal years than they have been the companies would have been blameable had they not taken up that issue and tried to see what further could be done; and if the companies were right in their view, to have convinced the Council. After all, that is the thing to do. If you are wrong, you should get right, and if you are right you should convince the other party. But we have been in the days when foreclosed properties were rapidly coming on our hands. They are even yet. To ask us to deal with the problem of long term loans in these circumstances was I submit not reasonable. We could not do it. Possibly the Dominion Mortgage and Investment Association would be willing, having regard to the views expressed here this morning, to again investigate this question of thirty-year amortized loans and to bring in a report upon it; I can assure you they would deal with the problem in a sympathetic way and without bias. They would try to get at the facts, and if it were possible to carry out such a plan they would do so.

Hon. Mr. BELCOURT: But so far your company and other companies carrying on a similar business have been satisfied that there was a good deal of money being loaned in the way you have been loaning it, and you think you could not make as much on the amortization plan?

Mr. RUNDLE: Oh, yes. I do not see why we could not make money on the amortization plan.

Hon. Mr. CALDER: You would have to change your entire system of borrowing.

Mr. RUNDLE: Yes. But so far as that is concerned, in the old days the Scotch people from whom the loan companies borrow most of their money used to lend money for ten or fifteen years. The reason they stopped was because the Governments of this country passed legislation which in effect made long term loans impossible. We had to convert the people who gave us their money on long term debentures to short term debentures so that we could make short term loans.

Now, if it is suggested that we revert to the old long term system, we will investigate and see what can be done. But I submit the companies are in the position of lenders for a short period to-day because public opinion expressed through legislatures so demanded. If public opinion has changed, and it has a perfect right to change, we will try to change too; but I submit that we should not be blamed but should be given an opportunity to investigate the matter.

Hon. Mr. BELCOURT: Is it fair to say that so far you have not come to an adverse conclusion with regard to the principle which this Bill is trying to put into operation?

Mr. RUNDLE: The principle of a long term?

Hon. Mr. BELCOURT: With amortization.

Mr. RUNDLE: I think the principle of the long term is all right. It does not matter whether a man borrows money for five, fifteen, or twenty years so long as what he pays for the money is fair and right. I submit, however, if you want my observation on this Bill, that as it stands the Bill can only have one result, namely, to bring losses to the general taxpayers of this country because the Bill will not stand on its own legs.

Hon. Mr. BELCOURT: What do you mean by that?

Mr. RUNDLE: You have a clause in the Bill which fixes the rate of interest It is fixed having regard to three underlying principles. One is the basic rate what the Commission is to pay for its money. That is, if they sell their bonds on a five per cent basis, then five per cent is the basic rate. Principle number two is the cost of operation—not more than one per cent. Principle number three is to add something (not stated) for losses. That is to say, if bonds are sold on the 5 per cent basis, then 5 per cent is principle number 1. Principle number 2 is cost of operation, not more than 1 per cent. Principle number 3 is something for losses.

By Hon. Mr. Dandurand:

Q. No limitation for losses?—A. No limitation for losses. I submit you cannot operate for 1 per cent. I submit that the Bill in this particular is absolutely contrary to experience—

Q. But it all depends on the volume of business you are doing. There may come a time when you can operate on 1 per cent.—A. But you start out with no volume. The United States Farm Loan Boards, when they started out, in the first year, I think, one of them cost over 4 per cent. If this were a personal matter with any of us we would try to get the Bill on a fair basis to start with. I do not suggest the Bill be loaded against anybody. We all want it a fair Bill if it is to go through. We are not afraid of fair competition, competition that will stand like ourselves, on its own legs—rather than on the back of the general taxpayer. Now, I submit that if the Bill is started off right and if as the result of experience it is found that the cost of operation is too high, then Parliament can change it. But to start it off in the face of all the experience which is available to this country, with a 1 per cent cost of operation, is, to my mind, gentlemen, a wrong method. The result will be, I think, that the general taxpayers of this country will have to make good the losses. You cannot operate on the 1 per cent basis.

Q. Well, Mr. Rundle, I put you this question. Undoubtedly the money will cost more than 1 per cent, and perhaps more than 2 per cent, the first year.

Hon. Mr. BELCOURT: The operation, you mean.

By Hon. Mr. Dandurand:

Q. That is the cost of operation.—A. Yes.

Q. Because you will lend for six months $500,000, and for another six months another $500,000.—A. Quite.

Q. There is no question about it. We all recognize that the first year and the second year it will cost more than 1 per cent. But you will admit that as we go on lending we shall reach a point where we are able to do the business at 1 per cent.—A. Well, I am not sure. The National Trust Company has been in business for twenty-seven years, and to-day it is doing business at a cost of —I am speaking now of the West—of 1.56 per cent. cost of operation, without any allowance for losses. I do not know whether the cost under this Bill will come down to 1 per cent ultimately. I acknowledge the effect of volume on cost. We all know that. But I do not know, and nobody knows, how much money you are going to be able to get out. But why, in the face of all the experience available to you, should the Bill be started off on a basis that is manifestly unsound, simply because someone hopes that at some time in the future a one per cent cost is going to be reached? Why not reverse the order?

Q. Yes, but there is another element.—A. Yes?

Q. It is that we say that for the first year or so, when we place $1,000,000, we will get that $1,000,000 subscribed, advanced, by the Federal Government, and there will be no interest paid for three years. So you have an advance or a bonus of $50,000 a year at 5 per cent, which will help to carry on the cost of operation during those first years.

By Hon. Mr. Belcourt:

Q. Let me carry this a little further. You admit that the principle is not wrong.—A. What principle?

Q. Of this Bill, thirty years.—A. No, no. I say the Bill is unsound.

Q. No, no. I do not mean— —A. I am not going to admit that the principle of this Bill is right. I am not opposing it. Let me make myself clear.

Q. We are not at one as to what I am asking. I want to explain what I mean.—A. I am not opposed to a Rural Credit Bill. I take it that that is a matter not for me, but for Parliament.

Q. That is what I meant. I did not mean anything else.—A. That is a matter for the country, represented by you, gentlemen. That is for you to deal with. But I have been asked to come here to give the result of my experience in the mortgage loan business over a period of forty years, and I say, in my opinion you cannot lend money under that Bill as it stands without incurring loss to this country. There will be a loss every year, and the loss is going to come out of the pockets of the people of Canada.

Q. I understand that that is your view, but I would ask you to tell us what we might do to this Bill in order to insure its proper functioning. What is the defect of the Bill that you would cure? That is what I am trying to do.—A. There are three or four defects.

Q. Let us have them.—A. First of all, I think you have a Bill that, while it does not say so in so many words, is in effect a Government guarantee. To my mind it is unthinkable that if the Farm Loan Board of Canada gets into trouble this country will not have to stand behind it and meet its losses.

Q. But what can we do to prevent the losses? What can we do to this Bill so that it will not result in the losses?—A. I am just coming to that. I quite understand your question, Senator.

Q. That is what I want to get at.—A. You see, you first asked me what my observations were on the whole Bill. Now, I have observations on several clauses of the Bill. Do you want me to give those, or do you want me to give you information on clause 5 of section 7, only with respect to the cost of operation? If you do, then I say that you should put into that Bill an administration cost of at least 2 per cent, and then I think you are on the low side; but I would say 2 per cent to cover cost of operation and loss. It should be at least 2 per cent.

By Hon. Mr. Reid:

Q. I understood from the Manitoba witness that he believed that it would take about 1½ per cent to cover cost of operation and losses. Now, Mr. Rundle, I understand you to say that it would cost about 1.56 to the companies and 0.50 for losses, or practically 2 per cent.—A. Yes.

Q. Now I want to ask you one or two questions. Does your company pay to the Government the business tax?—A. Yes, sir, we pay the business tax.

Q. And the local Governments'. These other organizations do not. The Farm Loan Board do not pay any tax to the Dominion or municipal governments?—A. I cannot answer that question, whether they do or not.

Q. I think that is right.—A. Yes? We do at any rate.

Q. And you pay municipal taxes?—A. Yes, sir.

Q. To the local government?—A. Yes, sir.

Q. And those boards do not?—A. Yes.

Hon. Mr. Beique: Yes, they pay the municipal tax.

By Hon. Mr. Reid:

Q. There is an income tax, you know. The local governments do not pay that. That is what I mean. Then there is $750,000 interest.—A. Yes, sir.

Q. That is allowed the Farm Board under this Bill, for interest. They have that as a bonus; they will have the interest on that each and every year—$35,000 or $40,000. They have that advantage. Then they have the interest on the bonus of the local government and the Dominion Government, free.

Hon. Mr. McMEANS: And the borrowers.

By Hon. Mr. Reid:

Q. And the borrowers, yes. They have that free.—A. That is to say, there is no dividend to be paid in respect of the 5 per cent to be put up by the borrower.

Q. Well, unless it has been earned. Anyway, the result of the statement from the Manitoba Government witness, as I understand it, was that so far they had not declared any dividend. And there is another statement that I think was made, that there is no charge for getting the money; that is, the Farm Loans Board pay no charge.

Hon. Mr. HUGHES: No commission.

By Hon. Mr. Reid:

Q. No commission. At least, they get the money free.—A. Yes, sir.

Q. Now, taking those several amounts I have mentioned, or those several advantages, would they amount to the extra 0.50 per cent that you have to pay? The former witness said 1.50 is what he would recommend to cover administration losses.—A. Yes.

Q. They have $750,000 of a bonus, and they have the interest on that—no charge for getting money—no taxes to the Dominion Government, no taxes to the local Governments and no income tax can be charged by the municipalities. Would all those several advantages go far towards making up the 0.50 per cent that you have stated would be the difference in the cost of administration?—A. Well, Senator, of course I have not made the calculation; therefore I cannot say definitely; but certainly there are advantages such as you have stated over and above what we would enjoy. But just exactly what it would amount to, I cannot tell you.

Q. If the Government give those advantages—that is, in the way of taxation, in the way of bonuses or subsidies—and do it annually, for this bonus goes on from time to time——A. Yes?

Q. Would it not be hard for you to compete?—A. Oh, yes; there is no doubt. Of course it is a mistake. While the borrowers under the Bill will reap the advantages such as you, Senator Reid, have indicated, the people of Canada will have to pay for them out of their own pockets. The idea that the $750,000, which is the interest for three years on $5,000,000, is not going to be paid by the people of Canada is all wrong. It is going to come out of their pockets. So when you consider that Bill, and its effect, I maintain that unless a 2 per cent cost is provided the people of this country will have to pay the difference.

By Hon. Mr. Belcourt:

Q. But that would not be a permanent requirement. You mean, at the initial stage it would necessitate at least 2 per cent, but later on we might hope for something less?—A. Well, Senator Belcourt, let us start right. There is a great accumulation of experience—and it says anything less than 2 per cent would be inadvisable.

Q. I do not think anybody here wishes to do that.—A. Well, sir, I submit that if you put less than 2 per cent you throw experience into the discard.

By Hon. Mr. Beique:

Q. But, Mr. Rundle, don't you think we have in the experience of Manitoba, and very likely in the experience of Saskatchewan, something on which we could form a judgment as to the future?—A. Yes, sir, I do.

Q. You would not be disposed to criticize the figures that have been given by Mr. MacNeill?—A. I would not criticize Mr. MacNeill, but on the other hand, Senator Beique, I would make certain observations on some of the points brought out by Mr. MacNeill, I do not think Mr. MacNeill would say they are unfair. One is that his cost makes no allowance whatsoever of $500,000 of money which his system has from the borrowers and the Government. Capital stock, in respect of which he pays no interest.

By Hon. Mr. Reid:

Q. Seven hundred and fifty thousand.—A. I thought it was about $500,000.

Hon. Mr. BEIQUE: About $500,000 altogether.

Mr. MACNEILL: It is $150,000 from the Government and $190,000 from the borrower: $440,000.

Mr. RUNDLE: Well, $440,000. That is free money. Give the lending companies some free money and they will reduce the rate of interest; or, put them in the position of the Manitoba Farm Loan Board, where they can get a supply of free money from the Government and they will reduce the rate of interest.

By Hon. Mr. Dandurand:

Q. But, Mr. Rundle, I want to draw your attention to this fact, that Mr. Finlayson expects that the Government will not be obliged to advance more than $1,000,000. So that would be $150,000 of a gift by the Government for the three years, during which it will not carry interest.—A. Yes. But I think the Government once it is in will find differently.

By Hon. Mr. Beique:

Q. But I was not suggesting that we should adopt the system of Manitoba, or any other system, but we have their experience as to the cost of operation.—A. Quite. That is an element you should take into consideration.

Q. Not only that, but also the losses.—A. That should be taken into consideration, but in doing so don't overlook there is a cost which the people of Manitoba are paying which is not taken into account in that Bill; it is a bonus, but the people are paying it all the same.

Q. Of course we cannot lose sight of that. We realize perfectly well what is the sacrifice made, what is paid by the community at large.—A. Yes. The other observation I would make on the Manitoba Farm Loan system is that I think they will have to foreclose a good many properties which they have not yet foreclosed, and in respect of which there will be substantial losses. However, that is just my opinion.

Q. I would like to ask you this question. Don't you think that there is more risk in a long-term loan than in a five-year loan?—A. Yes.

Q. And on account of some depreciation in the buildings?—A. Yes.

By Hon. Mr. Turriff:

Q. Mr. Rundle, there is a great deal of criticism in the West by the borrowers, on account of their having had to pay so much higher interest than in the East.—A. Yes, sir.

Q. Could you give the Committee any information as to the percentage of that caused by the legislation of the different provinces, that can put so many charges ahead of the first mortgage? What difference does that make in the interest charges in the West as compared with those in the East?

By Hon. Mr. Dandurand:

Q. What is the influence on the rate?

By Hon. Mr. Turriff:

Q. Yes.—A. I do not think we can say the difference is a certain exact percentage.

Q. But generally?—A. Let me point out the broad general principles which control rates. Rates of interest are determined by the law of supply and demand, and the character of the security offered, in which is involved the risk of loss. Now, our company to-day is lending, in the East at 6 and $6\frac{1}{2}$ per cent, and in the West at 7 and $7\frac{1}{2}$ per cent. We have instructed our Western offices to lend at 7 per cent. I submit, sir, that the figures which I have given show the West is fairly dealt by. I have given you figures which strikingly show the difference in the risk between lending in the East and lending in the West. And let me say this: I believe, in the last ten years, the position is not that the Eastern borrower has enjoyed an advantage over the Western borrower; I say the Western borrower has enjoyed an advantage over the Eastern borrower. We carry borrowers in the West sometimes for three or four years: borrowers who have had crop failures, etc., etc. It may be said that we must do so. But we have often done it when we did not have to. True we do not want a man to move off the farm, but at the same time we have had opportunities to sell. I think the mortgage lending companies have tried to play the game. We have made mistakes, like everybody else. Sometimes we have been unfair perhaps; but, broadly speaking, we have tried to carry on our business fairly. We carry borrowers in the West for three or four years. We never do that in the East. We have all this Western foreclosed property, all these Western losses to meet, and yet the difference between the Eastern rate and the Western rate in recent years has been, generally speaking, less than 2 per cent.

By Hon. Mr. Calder:

Q. It is the difference in cost of operation, that is all.—A. Yes. The difference in cost of operation.

Q. According to your own figures.—A. And that takes care of the losses and everything, quite.

Q. According to your statement, Mr. Rundle, you borrow money, roughly speaking, at 5?—A. Yes.

Q. You lend in Eastern Canada at $6\frac{1}{2}$?—A. Quite.

Q. You lend, you say, in Western Canada at $7\frac{1}{2}$.—A. Quite.

Q. Your cost of operation in Western Canada is 1.5.—A. Yes.

Q. Your cost of operation in Eastern Canada is .56. Add to your 5 per cent your 1.56 and you get $6\frac{1}{2}$. You say there should be provision to the extent of about .50 per cent to take care of loss.—A. Quite.

Q. —and the profits that you have to make. So that, so far as the original question asked by Mr. Turriff is concerned, as to what effect the existence of priorities under legislation had on your borrowing, from what I can see from your statement it has no effect at all, because you simply charge in Western Canada the rate at which you get money, plus the 1.56 per cent——A. Quite.

Q. —plus a percentage, in the neighbourhood of .50 per cent, to take care of losses and to pay profits to your shareholders.—A. Quite. There is an instance of where the priorities come in. If a man comes and asks us to lend him $1,000 on property that we value at $2,000, we cannot do it.

Q. I understand. You must have——A. We must have a margin in value to take care of those priorities. This is where the borrower is suffering because of the priority legislation. He cannot borrow as much money.

Q. But he does not suffer as far as the rate of interest is concerned?—A. Oh, no, he is favoured on that, against the East.

By Hon. Mr. Hughes:

Q. Is the Government of Ontario lending to the farmers of that province, and if so, what is the amount of loss?—A. I cannot tell you what the loss is.

By Hon. Mr. Dandurand:

Q. But you know they are lending?—A. Yes, but that is a matter of recent development. I do not think they have loaned very much, but we will get the figures.

By Hon. Mr. Hughes:

Q. I heard it was about $12,000,000.—A. We will get those figures for you.

Q. Why did the Government of Ontario deem it necessary, or even advisable, to enter that field that was already occupied by so many loan companies doing business, if they were able to meet the situation?

Right Hon. Sir GEORGE E. FOSTER: Ask Ferguson.

By Hon. Mr. Hughes:

Q. Mr. Rundle is not prepared to answer?—A. I do not want to speak on that.

The Committee adjourned.

TUESDAY, June 15, 1926.

The Standing Committee on Banking and Commerce met again to consider Bill 148, an Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for Farmers.

The CHAIRMAN: We have a communication which the Clerk of the Committee will read.

Mr. HINDS (Clerk of Committee), (Reading):—

DEPARTMENT OF THE TREASURY OF ONTARIO,
OFFICE OF THE MINISTER
TORONTO, June 14, 1926

Hon. GEO. G. FOSTER, K.C.,
Chairman, Banking Committee,
Ottawa.

Re: Bill 148 to establish mortgage credits for farmers

DEAR SIR,—In the absence of the Prime Minister, I beg to acknowledge receipt of your favour of the 9th instant, concerning the above-mentioned Bill. The province of Ontario have an Agricultural Development Board which handles our farm loans. As the rate of interest to the farmer is $5\frac{1}{2}$ per cent per annum, I do not think the province would be interested in any scheme which would mean a higher rate of interest. I think on this ground the province should be excused from appearing before your Committee.

Yours very truly,
(Sgd.) WM. H. PRICE.

The CHAIRMAN: Mr. Rundle, will you please come forward?

Mr. RUNDLE: Gentlemen, lest there might have been some misapprehension with respect to the references that were made this morning to amortization loans, perhaps I should say this: It has occurred to me that I might have left the impression that there was some definite legislation upon the statute books, which prohibited companies from making long term loans.

The CHAIRMAN: That was what you did; that is the impression the committee has.

Mr. RUNDLE: I think, in answer to a question by Senator Belcourt, when he asked me if there was anything in the charter of the National Trust that prohibited us from making twenty-year loans, I said I did not think there was.

Hon. Mr. BEIQUE: No provincial or Dominion statute?

Mr. RUNDLE: No provincial or Dominion statute. There is, however, a Dominion Act known as the "Orton Act"—

Hon. Mr. CALDER: What is that?

Mr. RUNDLE: The Orton Act, a Dominion Act passed in 1883 or 1884, or thereabouts, which provided that notwithstanding any contract between a mortgagee and a mortgagor with respect to the length of time a mortgage might run, after the passing of that Act the borrower would have the right to pay off at any time, by paying three months' interest as a bonus. Now, it was that Act which from a practical standpoint made it impossible or impracticable for the companies to make these long term loans. That is the point I wished to make clear.

The CHAIRMAN: What was that statute—a Dominion statute?

Mr. RUNDLE: A Dominion statute known as the Orton Act.

Mr. ROWELL, K.C.: It was commonly called the "Interest Act".

Mr. RUNDLE: I think it was introduced by Doctor Orton, who was then Member of Parliament from Guelph.

Now, one of the hon. members of the committee asked me this morning if I had any information with respect to the Agricultural Development Board of Ontario, a board established by the late Drury government. I had not at that time, but I said I would endeavour to get the information. I have now before me an extract from the speech delivered by the Provincial Treasurer of Ontario recently, when he presented his budget in the Ontario Legislature.

Hon. Mr. CALDER: Mr. Price?

Mr. RUNDLE: Mr. Price, and he referred to the Agricultural Development Board. This is a short extract, and if I may, I will read it. (Reading):—

> "When one turns to the Agricultural Development Board, we find that they have loaned out to farmers the sum of $9,584,176, in comparison with $7,206,442 loaned a year ago.
>
> The policy of creating a Reserve Fund—

Hon. Mr. DANDURAND: Loaned when?

Mr. RUNDLE: A year ago. A year ago the loans were $7,200,000, and now they are $9,500,000.

> "—for the Agricultural Development Board has also been placed in operation. It will be observed, however, that the change in the rates of interest, as far as the Agricultural Board is concerned, did not take place until June 1, 1925, and that the Reserve Fund covered only a period of five months.
>
> This reserve of the Agricultural Development Board is built up in two ways:—
>
> (1) The Treasurer pays the Savings Offices at the rate of 4 per cent and loans it to the Agricultural Development Board at $4\frac{1}{2}$ per cent. This gives $\frac{1}{2}$ of 1 per cent for the purpose of creating a reserve in the Consolidated Revenue Fund. This reserve for the five months amounted to $19,767, which will be found noted on page 58 of the Public Accounts.
>
> (2) In addition to this reserve kept in the Consolidated Revenue Fund, the Agricultural Development Board have themselves operated

> at a profit. We loaned to them at 4½ per cent and they loaned to the farmer at 5½ per cent. This gives them a 1 per cent margin. Their surplus on operations last year amounted to $40,909.95. This surplus is retained by themselves, making a total to date of $56,443.

So that we have this situation: the Ontario government in its capacity as a depository for the savings of the people, paid 3½ per cent for their money; through the Agricultural Development Board they loan at 5½ per cent, so that you will see that between the government as it receives the money in one department of government, and the government loaning it out through another department, they allow a 2 per cent margin to cover the cost of operation, and as a reserve to take care of losses, and, may I say, that this statement is more in accord with a statement which was made by the provincial treasurer of the province of Saskatchewan in the early part of this year, when he was making his budget speech in the legislature of the province of Saskatchewan. He was dealing with the Farm Loan Board of the province of Saskatchewan, and there is a short reference which I would like to read. It is dated " Tuesday, January 12th, 1926—

Hon. Mr. DANDURAND: Before you proceed with the comparison: I understood you to mention two figures. I thought the Ontario government was paying 4 per cent and not 3½.

Mr. RUNDLE: Not now, sir. When the Drury government brought in this legislation, Senator, they provided that money should be loaned to the borrowers at 6 per cent, and they were then paying in their savings department 4 per cent on their deposits.

Hon. Mr. DANDURAND: Now they are paying—

Mr. RUNDLE: Now they are paying 3½ per cent; so you see, they borrowed at 4, loaned at 6; they now borrow at 3½ and loan at 5½.

Hon. Mr. HUGHES: No—if I understood you right, the government is loaning money to the Board at 4½ per cent, and I think you said that the Board was loaning it to the farmers at 5½, and they have built up a reserve of $50,000 on that.

Mr. RUNDLE: Yes, exactly; but the money which the provincial treasurer loans at 4½ per cent—

Hon. Mr. HUGHES: He gets from the people—

Mr. RUNDLE: He gets from the other department of government (the savings), you see, at 3½ per cent. If, for instance, the government of the Province of Ontario placed itself in the position of a company which had to get money, like we have, from the people, and loan it out to the farmers, then they borrow at 3½, and they loan at 5½, and the difference is 2 per cent.

Hon. Mr. CALDER: But that 2 per cent, Mr. Rundle, takes care of the cost—the borrowing cost—of their Savings Deposit Branch—

Mr. RUNDLE: Quite.

Hon. Mr. CALDER: And it also takes care of the reserve fund which the government got on their contract for the rural credits scheme?

Mr. RUNDLE: Yes, and the cost of the Agricultural Development Board.

Hon. W. B. ROSS: Before the Ontario government got all their money from the source you have indicated, did they not have to go outside—or did they?

Mr. RUNDLE: No. I understand this money was loaned through the Agricultural Development Board; they got it from the Savings Department.

Hon. Mr. BEIQUE: They got enough to supply them?

Mr. RUNDLE: Oh, yes; the Ontario government Savings Department has many, many millions more than they have loaned out there.

Hon. W. B. ROSS: That is what I wanted to know—if there was enough.

Mr. RUNDLE: Oh, yes; the savings are many millions more than this.

Hon. Mr. HUGHES: Is not the Board itself making a profit on what it loans? It is borrowing at 4½ per cent, and loaning it to the farmers at 5½ per cent, and is making a profit after paying all management expenses? Is that what you stated?

Mr. RUNDLE: I think the treasurer takes care of that, because he says quite frankly "We loaned to them at 4½ per cent, and they loaned to the farmer at 5½ per cent. This gives them a 1 per cent margin. Their surplus on operation last year amounted to $40,909.95. This surplus is retained by themselves, making a total to date of $56,443."

Hon. Mr. CALDER: As a reserve?

Mr. RUNDLE: As a reserve.

Hon. Mr. CALDER: Against practically $10,000,000 of loans, $9,500,000 of loans.

Mr. RUNDLE: Yes, $9,500,000.

Hon. Mr. HUGHES: Eliminate the government altogether. If the Board were borrowing from some other source at the same rate as they are borrowing from the government, they could carry on operations at one per cent, and build up a reserve?

Hon. Mr. CALDER: That is, in Ontario?

Hon. Mr. HUGHES: Yes, or any other place.

Hon. Mr. CALDER: Mr. Rundle this morning explained that the cost of operating, on their part, in Ontario, the experience of all the loan companies in Ontario, is that they can operate on the .50 for operations, but when it comes to the west, the figure is increased to 1.56.

Hon. Mr. HUGHES: Why? What makes the operation so much more expensive in the west?

Hon. W. B. ROSS: There is a more scattered population.

Mr. RUNDLE: Let me give you one graphic illustration of that. Our Saskatoon office last year paid out for collecting interest alone more than eight times what it did before the war.

Hon. Mr. HUGHES: Higher salaries enter into it?

Mr. RUNDLE: No, not higher salaries, so far as that item of expense is concerned. We find that there has grown up a feeling of not considering obligations as obligations used to be considered. The result is that in many cases we have to go after our money; the borrowers will no longer send it in—

Hon. Mr. HUGHES: He has to be pressed?

Mr. RUNDLE: He has to be pressed. I am not going to be critical of the borrowers in that respect, because I am quite frank to say the borrower has had his troubles, but if the borrower has his troubles, that is one of the things which increase the cost, and it is a fact which we have to deal with; it is an element which we must frankly face, because it increases the cost.

Now, may I say that the provision for cost in the province of Ontario is more in line with the statement made by Premier Dunning at Regina early this year, when speaking of the Farm loan scheme in Saskatchewan. It will not take me more than a minute or two to read it, and that is all I shall attempt to deal with. Mr. Dunning said:—

Just a few words with regard to the Farm Loan Board. I was able to table earlier in the Session the Report of the Board for the calendar year 1924. The statement from the Board for the calendar year 1925 is not yet available, but I hope to be able to table it before the close of the Session. I have some information which should be encouraging to those who believe in this scheme, and in the general soundness of rural credit schemes of this nature. At the end of the calendar year 1925 the Board had paid to the Treasury every cent of interest due. In addition at that date it had nearly $75,000 which has been applied in repaying of the loans for administration purposes made in previous years to them by the Provincial Treasury. The Board will still owe the Government a substantial amount of administration account, something over $200,000 but the result of the 1925 operations, reflecting as they do the general improvement in the economic condition of the people and consequently of the borrowers, does tend to justify the belief of those of us who started the scheme that it can be worked on a margin of from one and one-half to two per cent, allowing for all costs of administration and contingencies provided that borrowers play the game fairly.

Perhaps it is a little too early to say that the experiment is a success. The year has been an excellent one, considering that the scheme has passed through eight of the most difficult years from an economic point of view that our people have ever seen. But the situation is very encouraging. I am not advocating that we should widely extend the capital loans to the Board. The province has already about $10,000,000 invested in the scheme. It is a lot of money and there is a limit to the extent to which it is wise and practicable for 800,000 people to pledge their credit for the service of a part of the people. We should continue to go steadily and slowly in the matter, impressing upon the farmers all the time that the fundamental of a long term system of agricultural credits must be promptitude of payment on the part of the borrowers, to the end that those who have not yet been able to get the benefits of the scheme may, through the repayment of small principal instalments by those who have had the benefits in the past, secure loans for themselves. That little feature of human nature is the one indeterminate thing in connection with an agricultural credit scheme, the one factor which cannot be exactly estimated. If there is a general disposition on the part of the borrowers to treat the obligation as one of little importance because it is government money, then no rural credit scheme can succeed. If on the other hand there is a disposition on the part of the borrowers to regard the obligation as more sacred because it is the money of all the people then you can operate such a scheme on a mighty close margin.

The Chairman: What is the date of that?

Mr. Rundle: The date of that, sir,—it is from the Sessional Papers of the Province of Saskatchewan, 1925 and 1926. The speech begins on page 142—

Hon. Mr. Calder: But what is the date of that?

Mr. Rundle: It is dated Tuesday, January 12, 1926. What I read is on the bottom of page 158, and continued and concluded on page 159.

Hon. Mr. Beique: You gave the date at the beginning.

Mr. Rundle: Yes.

Hon. Mr. Calder: According to that statement, Mr. Rundle, Mr. Dunning held the view that in so far as the spread between the rate at which money was supplied to the Board, and the rate at which the Board loaned it out was concerned, it was from one and a half per cent to two per cent?

Mr. Rundle: Yes sir; that is as I understand it.

Hon. Mr. DANDURAND: But that was for amortized loans?

Mr. RUNDLE: No. He is referring now, sir, not to the rate of interest, but to the cost of operation.

Hon. Mr. BEIQUE: When was the Ontario system started?

Hon. Mr. CALDER: About five years ago.

Mr. RUNDLE: In 1921, I think.

Hon. Mr. CALDER: It has been running about five years, I think. I was speaking to Mr. Doherty, who introduced the Bill, to-day. They have loaned about $10,000,000.

Hon. Mr. BEIQUE: They did transfer to the reserve account some $40,000 last year, but they—

Mr. RUNDLE: It was the surplus they had in their operations—$40,000.

Hon. Mr. BEIQUE: For the year?

Mr. RUNDLE: Yes sir.

Hon. Mr. BEIQUE: They only had $27,000 before—or $17,000?

Mr. RUNDLE: Their surplus on operations last year amounted to $40.909. This surplus they retained for themselves, making a total to date of approximately $56,000—yes, they had $16,000 before.

Hon. Mr. WILLOUGHBY: That rate would be levelled down by other provinces going in,—

Mr. RUNDLE: No; in my evidence this morning, sir—

Hon. Mr. WILLOUGHBY: I did not have the pleasure of hearing it.

Mr. RUNDLE: —I pointed out that our actual experience is that in the three western provinces it costs 1.56, to do our business—the cost of operation, exclusive of any allowance for loss.

Hon. Mr. WILLOUGHBY: Granted, but I say if other provinces, where the cost is not so great, took advantage of the scheme, you would have a letting down of the rate.

Hon. Mr. CALDER: Ontario said they would have nothing to do with it.

Hon. Mr. CURRY: Does the province of Ontario have a special staff for doing this work, and pay them out of this one per cent, or whatever it is, or do some of the government officials work on this, and draw their pay from the province?

Mr. RUNDLE: Well sir, I cannot answer that.

Hon. Mr. CALDER: In their statement they made last year, their expenses are "Inspection—$18,021; Salaries—$36,552; Stationery and Supplies—$2,409; Postage, etc.—$1,674; Sundries—$539." In that first provision, there is $36,552 for salaries and approximately $18,000 for inspection,—

Hon. Mr. CURRY: That is taken out of this?

Hon. Mr. CALDER: Yes, making a total of $59,197. Their total loans outstanding were apparently in the neighbourhood of $7,206,000, and their expenses, in so far as these items are concerned, were $59,000, roughly, which would be—what percentage? Over .80 per cent. I think there are some little items here which must be taken into consideration, on account of interest, etc.

Hon. Mr. ROWELL, K.C.: Before introducing Mr. Smith, Mr. Chairman, may I say that Mr. Smith is the manager of the Canada Permanent Mortgage Corporation, and the president of the Dominion Mortgage and Investments Association. He will speak to you in reference to priorities.

But may I first give a list of the priorities? A member of the committee has asked for them, and I will give a list of the priorities for the province of Alberta.

They are divided into classes. First are the charges having statutory first priority on land. First the ordinary taxes, including (a) municipal taxes, (b) school taxes and (c) supplementary revenue collected by municipalities for the province.

Secondly. The municipal hail insurance, and that is a very large item; a rate of $6, $8 and $10 per acre may be charged, and surtax where indemnity is payable. Collectible as taxes.

Now, to illustrate how serious and important this item is, may I draw the attention of the committee to the Alberta government return, the annual report of the Department of Municipal Affairs, Alberta, for 1923. In this report, it will be seen that in the municipal districts, they collected annual taxes—these are actual collections—amounting to $9,657,122.71, of which the municipal taxes amounted to $3,186,516.57, the school taxes, $2,336,443.06; hail taxes, $2,153,-160.06; in other words, the hail taxes were approximately equal to the entire school taxes in those municipalities.

Hon. Mr. Calder: That is the protection for the loan companies?

Hon. Mr. Rowell, K.C.: Well, if you have your loans, you have got that charge ahead of you; it is rather an important consideration in connection with the security.

Permit me to illustrate this. On 14 quarter sections—and I will admit these are extreme cases, and I only mention them to show what is possible under this system—these are actual returns from an investigation by the companies—on 314 quarter sections it was found there were cumulative taxes as follows: Hail insurance, $39.472, or $126 per quarter section; all other taxes, $24,323, or $78 per quarter section. These taxes were for a period of two or three years, and I only mention these to indicate the importance of this item.

Third. Then we have the noxious weed taxes, not to exceed $200 per quarter section, as ordered by the inspector.

Fourth, the destruction of agricultural pests. Where proper steps are not taken by the owner or occupant, gophers, 2½ cents per acre, other pests 25 cents per acre, collectible as taxes.

Fifth, the Drainage Act. A charge under this Act takes priority to existing encumbrances.

Sixth. Hospital Aid. This is collectible as taxes, and a charge on the land owned. That has been contested recently in the courts, and the decision was that it does not have priority over mortgages. I understand, however, that the Government has not accepted that as final.

Seventh. Then there is the Dominion Seed Grain Liens. Mr. Finlayson could tell the Committee all about that. I think the total advances in 1915 and 1916 were $11,500,000. It may be that the total advances up to date are about $30,000,000. I believe there is still some $5,200,000 due on seed grain loans in Western Canada. I believe that was loaned—or a part of it at least—in 1915 or 1916, and not yet repaid.

Eighth, the provincial seed grain liens, under the Act of 1908 only.

Ninth, the Irrigation Act. The first mortgage has priority over the irrigation rates, but when the first mortgagee forecloses, and acquires title, he loses such priority and becomes liable for the rates imposed from that date.

Tenth, the Mechanics' Lien Act. Under this Act the liens shall have priority to existing mortgages " as against the increase in value of the mortgaged premises caused by reason of such works or improvements."

Eleventh, the Workmen's Compensation Act. As a rule, that would not apply to farms, but when there are mines or other works on land, it does apply, and the charges under the Workmen's Compensation Act has priority over all mortgages.

Then, the Live Stock Act. This is not a statutory priority, but it does affect the land. The lender is given a charge on all live stock of the purchaser, without having to register the charge. That does not take priority over existing mortgages, but it is a prior lien on the land, if the party desires to borrow after giving the mortgage. Probably the representative from Alberta could inform the committee on that. I understand that from $1,500,000 to $2,000,000 have been advanced under this Act by the banks under guarantee from the Alberta Government. It was advanced to co-operative groups to enable them to buy stock, and it was originally provided that each member of the group should become responsible for the total loan to the group, but after the Government found the difficulties of enforcing it, they cancelled the responsibility of the other members of the group. It was borrowed from the banks on the guarantee of the Government, and I understand the Government has already had to pay a very large sum, amounting to some hundreds of thousands of dollars, in respect to these guarantees. I hesitate to give the figures, because we have not any definite statement from the Government in reference to it, but the losses are said to be very large. Those are the liens, I think, directly affecting the land.

Second. Then there is another list of charges having statutory priority on crops more or less complete. While the charge does not take priority over mortgage liens, it takes priority over the mortgagee in recovering from the crops. Here is a list of them.

First. The Co-operative Credit Societies Lien. This Act was passed in 1917. In 1921 the section charging growing and future crops was inserted, sections 6 and 7. Early in 1924, it was decided by the Courts that the wording of the Act was ineffective to give the lien on crops the priority which was intended, and in 1924 the legislature overcame this judicial decision by passing an amending Act and making it retroactive, so that the effect of this decision has now been negatived, not only as regards future but also past transactions.

Second. The Municipal District Seed Grain Liens. Under this Act all liens upon crops given or continued by this section shall have priority over all mortgages, liens, charges, and rights of distress, and over all other rights which might be enforced by sale or seizure, except a lien under the Threshers Lien Act.

Third. The Lien to Storekeepers for Necessaries supplied to farmers. Meats, groceries, flour, clothing, binder twine, repairs to machinery, and wages to labourers upon (a) on one-quarter section, $250; (b) on one-half section, $350; (c) on section, $500, secured by a first charge on the crop of the year in which the money was advanced.

They also have a Statute limiting the rights of the mortgagee on the covenant. This Act has been amended several times, but the present provision was passed in 1920, and it provides that the debt shall be realized in the first instance by the sale of the land. The mortgagee is given power to register a charge in the Land Title Office against the land of the mortgagor, but power was given to the Judge to release any land of the mortgagor from the effect of such charge, if it should be deemed advisable. If the land is not saleable, he is precluded from resorting to any other assets, except by permission of the Judge.

Those are the priorities affecting mortgage investments in Alberta, as reported to the Association, and prepared under the supervision of its western solicitor.

I have the priorities in Manitoba and Saskatchewan, if the committee wishes to have them, but they are not quite so numerous.

Hon. Mr. Beique: I think it would be much shorter if you gave us what was left.

Hon. Mr. Rowell, K.C.: If I may answer the Senator, I would say a great deal of property unsold and in the hands of the Mortgage Companies, in respect to which the amounts they have in the property to-day is, in many cases,

more than double the amounts of the original loan, by reason of these companies having to protect their securities. Just let me give the committee two or three illustrations of that—

Hon. Mr. BEIQUE: I understood Mr. Rundle this morning to say that the loans had not been affected very much.

Hon. Mr. ROWELL, K.C.: I think that will be dealt with by Mr. Smith. One of the hon. Senators asked about the cost of administration. One of the important elements that increases the cost of administration in the west is looking after the loans in view of these priority claims. It adds to the cost of administration, and in that sense it does affect the loaning rate.

May I give you a few illustrations to show how loans are affected.

Here is an original loan of $3,000; accumulated interest $1,128; general taxes, $415; hail insurance $441; seed grain lien to the Crown, $370; it stands the loan company $5,354.17, as against an original advance of $3,000.

Hon. Mr. HUGHES: It is really a liability.

Hon. Mr. ROWELL, K.C.: It is a liability. Here is another loan of $2,000, interest $525, general taxes $2,045, interest $112; it stands the loan company $4,683 for a $2,000 loan.

Hon. Mr. LAIRD: How could there be that much taxes?

Hon. Mr. ROWELL, K.C.: $2,045?

Hon. Mr. LAIRD: Yes.

Hon. Mr. CALDER: It may have been a $10,000 property with a $2,000 loan on it.

Hon. Mr. ROWELL, K.C.: There may be some such explanation.

Hon. Mr. LAIRD: It may have been a large tract.

Hon. Mr. ROWELL, K.C.: It may have been a large tract. Here is another one; a loan of $5,000, general taxes $672, hail insurance $876; it is now $6,548, without any interest.

Then there is another. $700; interest $160; general taxes $335; cost $184; total $1,374. So it goes on. Some are even worse than that. These are extreme, of course, and there are some which are not so bad.

Hon. Mr. LAIRD: In the face of that, are mortgage companies advancing money in Alberta?

Hon. Mr. ROWELL, K.C.: They are to a certain extent, if they are satisfied with the borrower and the security. One of the hon. Senators mentioned this morning that this whole list of priorities impaired the value of the investment. Some companies did withdraw from loaning money in Alberta, but other companies continued to loan money, but I think the committee will see that it is impossible that these things should not affect the rate. I could give a list of the priorities in Manitoba and Saskatchewan to the reporter, and you could have it on the record. This list was also prepared by the secretary.

Hon. Mr. WILLOUGHBY: I would suggest you do that.

(Whereupon the lists referred to by the Hon. Mr. Rowell, K.C., were filed, to be incorporated in this record, and are in words and figures as follows, to wit):—

SCHEDULE OF MANITOBA LEGISLATION IN DEROGATION OF FARM LAND MORTGAGEES' PRIORITY ACCORDING TO TIME OF REGISTRATION AND RECOURSE AGAINST CROPS.

A

CLAIMS ON LAND ARISING AFTER REGISTRATION OF, BUT HAVING PRIORITY OVER MORTGAGES

1. *Yearly Municipal and School rates* (including, inter alia, a tax of 2 mills on the dollar under the Supplementary Revenue Act, 1918, c. 65; C.A. 1924, c. 184, s. 2).—The Municipal Act, R.S.M. 1913, c. 133, ss. 416

and 424 (yearly estimates); 474, 479 and 480 (building and repair of roads, bridges, etc.); 483 and 491 (water supply); 521 (road making); the Assessment Act, R.S.M. c. 134; C.A. 1924, c. 134, s. 140; the Real Property Act, R.S.M. c. 171, s. 78.

2. *Well Boring.*—With municipally owned boring machinery, cost of collectable in same manner as ordinary taxes and as if levied under The Assessment Act.—The Municipality Act, R.S.M. c. 133, s. 473.

3. *Drainage.*—A municipality may borrow up to four thousand dollars for drainage work and levy in the same manner as taxes, upon the real property benefited, a special rate for payment of the debentures.—The Municipal Act, R.S.M. 1913; c. 133, ss. 498 and 499. See also Post, No. 6.

4. *Gophers Destruction.*—Where owner or occupant fails to comply with municipal proclamation to destroy gophers, municipality may destroy; and costs incurred not exceeding $10 per quarter, per year, shall be charged as taxes against the land effected.—1920, c. 82, s. 14, adding s. 599a to the Municipal Act.

5. *Unoccupied Land Taxes.*—Supplementing the revenues of the Crown, a yearly tax on unoccupied lands of one-half of one per cent of the assessed value; but no land to be taxed at higher than 80 cents per acre. Collectable in the same manner as other taxes.—The Unoccupied Lands Tax Act, 1918, c. 90; C.A. 1924, c. 192, ss. 3 and 33.

6. *Drainage.*—Upon petition of a majority of the property holders interested a drainage district may be organized, debentures issued and drainage work undertaken; and the necessary amount for the retiring of the debentures is raised by annual levies having the same force and effect as other taxes and collectible in the same manner as if levied under the Assessment Act.—The Land Drainage Act, R.S.M. 1913, c. 56, ss. 16, 16a (added 1923, c. 9) 24 and 43. See also Ante No. 3.

7. *Noxious Weeds Destruction.*—Cost of destruction of weeds by municipality not exceeding per year $1 per acre in case of thistle and tumbling mustard, or $150 per quarter section in case of other classes, is collectible in the same manner as other taxes.—Noxious Weeds Act, 1924, c. 43; C.A. 1924, c. 145, ss. 40 and 41.

8. *Hail Insurance.*—(*a*) Where a by-law of council to provide for a fund out of which to indemnify ratepayers for hail losses is assented to by the electors, a tax not exceeding 3 cents per acre is levied until $10,000 collected. Collectible as under the Assessment Act.—The Municipal Hail Insurance Act, R.S.M. 1913, c. 100, s. 9.

(*b*) Hail insurance districts may be organized amongst municipalities; and the rate which is struck after ascertainment of losses is levied in the same manner as municipal taxes.—The Municipal District Hail Insurance Act, 1920, c. 62, s. 34.

(*c*) Where a by-law of council to assess lands for the raising of a fund to indemnify for hail losses is assented to by the electors, a tax of 4 cents per acre shall be leviable upon lands in the municipality and the latter shall have the same rights and remedies for recovery thereof as in the case of any other taxes.—The Inter-Municipal Hail Insurance Act, 1914, c. 53; C.A. 1924, c. 100, s. 9.

(The required number of municipalities not having voted favourably the last two mentioned Acts have not been proclaimed and are only partially in force.)

9. *Hospitals.*—In any municipality included in a hospital district the municipality's share of the capital expenditure, interest and esti-

mated net maintenance, which share however, shall not be such as to require a levy of more than 2 mills on the dollar of the assessed value, is assessable and collectible as are taxes under The Municipal Act and The Assessment Act.—The Municipal Hospitals Act, 1919, c. 72; C.A. 1924, c. 142, ss. 18 and 19.

10. *Telephones, Gas and Electric Light.*—(*a*) Cities, towns and villages have power to construct or purchase and operate electric light works, gas works or telephone lines; and all charges, rents, rates and accounts shall be treated and may be collected in every way as if the same were taxes levied under The Assessment Act.—The Municipal Electric Light, Gas and Telephone Act, R.S.M. 1913, c. 140, ss. 3 and 11.

(*b*) Where a municipality has expropriated or constructed a telephone system, provisions of The Municipal Electric Light, Gas and Telephone Act shall be applicable.—The Municipal Telephone Systems Act, R.S.M. c. 196, ss. 14 and 27.

11. *Seed Grain.*—(*a*) Accounts owing to municipalities in respect of seed grain advances down to and including the year 1922 are declared to be taxes due and in arrear against the land as if duly levied and in arrear under The Assessment Act.—The Seed Grain Act, R.S.M. c. 178, s. 23; and the following Annuals, viz: 1915, c. 70, 1917, c. 80, 1918, c. 78, 1919, c. 91, 1920, c. 102, 1921, c. 65, 1922, c. 19.

(*b*) Amounts owing to the province in respect of seed grain advances of the year 1915 in unorganized districts are, if registered, a first lien or charge against the land in priority to every other lien, charge, mortgage, and encumbrance.—1915, c. 72, s. 7. (Compare Post No. 13b).

(*c*) Amounts owing to municipalities in respect of seed grain advances of the year 1923 in the districts known as Lowe Farm and Kane are, if registered, a first lien or charge in favour of His Majesty against the land.—1923, c. 42, s. 2 amending the Annual, viz. 1923, c. 41.

12. *Mechanics' Liens.*—If work be done and materials placed on property encumbered by a mortgage, the mechanics' lien takes priority over the mortgage to the extent of the increase in value.—The Mechanics' Lien Act, R.S.M. c. 125, s. 5 (3).

B.

ITEMS TAKING PRIORITY ON LAND OVER ALL PREVIOUSLY CREATED CLAIMS, EXCEPTING TAXES AND FIRST MORTGAGES

13. *Seed Grain.*—(*a*) Amounts due municipalities in respect of seed grain advances of the year 1924, and seed grain or potato advances of the year 1925, are declared to be taxes due and in arrear against the land as if levied and in arrear under The Assessment Act excepting as against a first mortgagee whose consent to the advance was not obtained. —1924, c. 61, s. 17; 1925, c. s.

(*b*) Except in the case of a homestead, amounts due the province in respect of seed grain advanced in 1925 in unorganized territory are the first lien and charge upon the land save for taxes and first mortgages registered prior to the date of the note for the advance.—(Compare Ante No. 11b), 1925, c. s. 7.

C.

ITEMS in derogation of land mortgagees' recourse against crops (subject to anything to the contrary in the Crop Payments Act and Amendments, protecting to some extent share-crop mortgages and tenancies as against claims other than for seed.)

14. *Taxes and sums collectible as taxes*, as set out in Part A, numbers 1 to 12.

15. *Seed Grain.*—(*a*) Seed grain chattel mortgages are declared to be a first and preferential security upon the crop sown during the year in which the seed was supplied, as against every other claim, security or process.—The Bills of Sale and Chattel Mortgage Act, R.S.M., 1913, c. 17, s. 34. See also 1924, c. 42, s. 1; C.A. 1924, c. 103, s. 1.

(*b*) Amounts due municipalities in respect of seed advances of the years 1923, 1924 and 1925 are a first and preferential lien upon the crop grown on the land with the same priority and effect as a seed grain chattel mortgage under the Bills of Sale and Chattel Mortgage Act.—1924, c. 61, 1925, c.   1923, c. 41, s. 17.

(*c*) Amounts of advances by Rural Credit Societies for seed grain.—The Rural Credits Act, 1917, c. 73, am. 1921, c. 62; C.A. 1924, c. 173, s. 37 (2).

(*d*) Amounts due the province in respect of seed advanced in 1925 in unorganized territory are declared to be a lien or charge upon all grain grown upon the land for which the seed was advanced, in priority to every charge or encumbrance thereon of whatsoever nature or kind.—1915, c. 72, s. 8.

(*e*) Amounts due the province in respect of seed advanced in 1925 in unorganized territory are declared to be a first lien and charge upon the 1925 crops, notwithstanding any Act or Law to the contrary.—1925, c.   , s. 7.

(*f*) Amounts due Municipalities in respect of seed advances down to and including 1922 may be distrained for, as taxes.

(*g*) Bank loans for seed are declared to be a first and preferential lien and claim upon the crop.—The Bank Act. (Dom.) 1923, c. 32.

16. *Wages.*—A Magistrate's or J. P's warrant for wages is declared to take priority up to $150 over all landlord's or mortgagee's warrants, bills of sale and chattel mortgages executed after commencement of the labour.—R.S.M. 1913, c. 124, s. 21 am. 1920, c. 73.

17. *Threshers' Liens.*—The lien of a thresher is declared to prevail against all liens, charges, encumbrances, conveyances and claims whatsoever, including any seed grain mortgage.—R.S.M. 1913, c. 197, s. 6, am. 1925 c   .

Memorandum of Statutory Encumbrances in Saskatchewan

A

1. *Ordinary taxes*, including:
   (*a*) Municipal taxes,
   (*b*) School taxes,
   (Collected practically entirely by Municipalities).
   (*c*) Public Revenue Tax, R.S.S. Chap. 29,
   (Collected by Municipalities for the province at the rate of 2 mills on the dollar).

2. *Municipal Hail Insurance.* R.S.S. Chap. 99.—A flat rate of four cents an acre, plus such additional rate as fixed by the Commission.

3. *Telephone Tax,* R.S.S. Chap. 96.—Cost of constructing, reconstructing and improving telephone systems, charged on the lands served by the system as defined in the Act, and collected as taxes.

4. *Noxious Weeds Destruction.* R.S.S. Chap. 89, Secs. 186-189, Statutes of 1924, Chap. 40. As ordered by the Inspector, not to exceed $200 per quarter section, or in case of perennial sow thistle, up to $300 per quarter.

5. *Extermination of Gophers and Grasshoppers.* R.S.S. Chap. 89, Secs. 172-173. Where proper steps are not taken by the owner gophers not exceeding $2\frac{1}{2}$ cents per acre and grasshoppers not exceeding 25 cents per acre.

6. *Drainage Tax.* R.S.S. Chap. 161.—Charged on the lands served as defined by the Act.

7. *Water or Electric Light and Gas Rates.* R.S.S. 92, Sec. 12.—Under the Municipal Public Works Act.

8. *Dominion Seed Grain Liens.* Statutes of 1915, Chap. 33.

9. *Provincial Seed Grain Liens under Act of 1908.* Now practically extinct.

B

STATUTORY CHARGES ON LAND TAKING PRIORITY TO EVERYTHING EXCEPT FIRST MORTGAGES

1. *Hospital Aid.* R.S.S. Chap. 89, Sec. 200.
2. *Municipal Seed Grain Liens.* R.S.S. Chap. 100.

C

CHARGES ON CROP HAVING STATUTORY PRIORITY, MORE OR LESS COMPLETE

1. *Municipal Seed Grain Liens.* R.S.S. Chap. 100.
2. *Seed Grain Chattel Mortgages.* R.S.S. Chap. 200, Sec. 20.
3. *Threshers' Liens.* Statutes of 1924-25, Chap. 50.
4. *Supplies Chattel Mortgage.* R.S.S. Chap. 200, Sec. 20, (ss. 6), (not ahead of landlord).

D

CHARGES HAVING POTENTIAL PRIORITY ON CROP BY REASON OF THE RIGHT TO SEIZE AS FOR TAXES

1. Ordinary taxes and sums collectable as taxes as set out in Part A, items 1 to 7.

2. *Municipal Relief Liens.* Statutes of 1919-20, Chap. 33; Statutes of 1920, Chap. 11; Statutes of 1921-22, Chap. 7; Statutes of 1923, Chap. 4; Statutes of 1924-25, Chap. 28.

Hon. Mr. TODD: Mr. Rowell, could not one of the companies give us a statement on this subject, of the existence of the priorities, and what the total amount of the priority loans were—something of that kind? You admit that here to-night you have been taking extreme cases.

Hon. Mr. DANDURAND: They would not appear where the borrowers were meeting their obligations?

Hon. Mr. CALDER: They change from day to day.

Hon. Mr. ROWELL, K.C.: We are called upon to realize if the borrower makes default, and we have to take it over; then the trouble commences.

Hon. Mr. BEIQUE: Mr. Rowell, in the figures you have given us of priorities —were they priorities which accrued subsequent to the loans?

Hon. Mr. ROWELL, K.C.: The first list I gave you, Mr. Beique, with the single exception of the co-operative loan—the first twelve take priority over all existing mortgages.

Hon. Mr. CALDER: But they existed before—

Hon. Mr. BEIQUE: You gave us the amounts in some special cases; you said some were bad, others were extreme, and—

Hon. Mr. Rowell, K.C.: All these statutes are retroactive in the sense that no matter when the loan is placed, the taxes apply for the future.

Hon. Mr. Calder: Mr. Rowell, most of these mortgages were five-year mortgages and had to be renewed, and most of these statutory priorities were created anywhere from seven to twelve to fifteen years, and any mortgages which have been placed in Saskatchewan, to a very large extent, have been placed while these priorities existed.

Hon. Mr. Schaffner: They would pay them off when they registered the mortgage.

Hon. Mr. Calder: I know that seed grain priority was started back about fifteen years ago.

George H. Smith called.

The Chairman: What is your official position, Mr. Smith?

Mr. Smith: General Manager of the Canada Permanent Mortgage Corporation, and the President of the Dominion Mortgage and Investments Association, which is the reason Mr. Rowell has asked your permission for me to appear, to give you some further information, following that which you had from Mr. Rundle this morning.

Mr. Rundle has covered the ground so fully that I shall detain you only for a short time, but as representing, and General Manager of the oldest and largest of our Canadian loan companies, one that was organized in 1855, and has been continuously in business ever since that date,—and has been operating in the western provinces since 1881, and is to-day operating in every province in the Dominion, with one exception,—it was thought that possibly our experience might be useful to a Dominion-wide organization, such as you are proposing to constitute.

Our assets amount to \$48,281,493, of which \$38,958,514 consist of mortgages on real estate, and of those mortgages, \$16,588,497 are in the three prairie provinces, or about 42½ per cent of the total.

Now, a vital question which has been discussed to-day is that of the cost of management, Mr. Rundle gave you the figures this morning for his company, and I have been asked to give you those for our company.

I may say that we have not been able to operate on quite as favourable a percentage as Mr. Rundle was able to show for his company. Possibly this is due to the fact that, as he told you, they have other services from which they derive revenue, and there may have been some difference in the method of calculation. Ours are entirely adapted to the one line of business, and therefore, are appropriate to the question you are considering.

The cost of our management in 1925 was 1.57 per cent of all our investments, or 1.98 per cent of our mortgages only. I have gone back as far as I could gather the facts, and the average for the past ten years is 1.64 per cent on our investments—

Hon. Mr. Calder: Is that applying to all of Canada, or just western Canada?

Mr. Smith: All of Canada. I will come to the differences in a moment or two. I would like to say that the percentage has increased of late years for reasons which are due to the increased expense in connection with doing business, and particularly in connection with collections.

In 1916—the first of the years for which I have the facts—our percentage was 1.20 of all our investment, and 1.46 of our mortgages only. Now, to give the facts with regard to the differences between the east and the west, in reply

to Senator Calder, I would say that, taking last year's figures—1925 —our percentage for the three prairie provinces was 1.70 per cent, whereas in Ontario it was 1.32.

Hon. Mr. CALDER: 1.32?

Mr. SMITH: Yes.

Hon. Mr. DANDURAND: That is for administration?

Mr. SMITH: Yes, management expenses. The average of the past six years, which was as far as I could go back for this particular information —I have gone back as far as it was available—was, for Ontario, 1.49 per cent, and for the three prairie provinces 1.92 per cent.

Now, sir, the question has been asked—

Hon. Mr. BEIQUE: Let me ask you a question right there, Mr. Smith. What were the amounts of your loans in Ontario, and in the western provinces—about?

Mr. SMITH: The three prairie provinces were $16,588,000, or about 42½ per cent of the whole.

Hon. Mr. CALDER: That covers both urban and farm lands?

Mr. SMITH: That covers both urban and farm lands. I have not the exact figures as to each, because we do not keep them separately, but I would say that in the west our urban mortgages are at least 20 per cent, or possibly 25 per cent of the total, and, of course, the expense in connection with the administration and management and collections on urban mortgages is not nearly so great.

Hon. Mr. CALDER: Do you separate your farm mortgages from your urban mortgages in the west, because the administration of your farm mortgages no doubt would be greater than your urban mortgage end.

Mr. SMITH: Unquestionably.

Hon. Mr. CALDER: And what did you give as the figure for that?

Mr. SMITH: 1.92 per cent.

Hon. Mr. CALDER: So your farm mortgages would be—

Mr. SMITH: Over two per cent.

Hon. Mr. BEIQUE: I wanted to know the total amount of loans in Ontario as compared with the total amount of loans in the western provinces, because that may affect the situation.

Mr. SMITH: I want to give you that information, Mr. Beique. As I said, the total amount in the three provinces was $16,588,000, or about 42½ per cent of the total of nearly $39,000,000.

Hon. Mr. BEIQUE: And in Ontario?

Mr. SMITH: In Ontario it was about the same—about $16,000,000. The remainder of our mortgage investments were divided amongst four other provinces.

Hon. Mr. MCMEANS: Does that item of "expense" include the running of the offices?

Mr. SMITH: That is the entire amount, sir.

Hon. Mr. HUGHES: What percentage is paid for the business?

Mr. SMITH: We pay one per cent in many cases, but not in all cases.

Hon. Mr. CALDER: Not in all cases?

Mr. SMITH: No.

Hon. Mr. PLANTA: Do you recover that from the borrower?

Mr. SMITH: No. The borrowers pay the legal fees, but not the commissions. Some borrowers come to us direct, and, of course, in that case, we pay no commission.

Hon. Mr. Calder: You have no business except the loaning business? You have no Trust business?

Mr. Smith: It is strictly a loaning business. Our Trust business is managed by an entirely separate company.

Hon. Mr. Calder: You get a portion of your money from deposits?

Mr. Smith: We get a portion of our money from deposits, and a portion from the sale of our debentures.

Hon. Mr. Calder: And you simply loan it out?

Mr. Smith: Yes.

Hon. Mr. Willoughby: Have you any way of showing the cost of procuring a loan? It would be valuable in any rural scheme, of course.

Mr. Smith: Mr. Finlayson has already made that up from his returns, and I will quote his figures. He shows the rate of commission on all the mortgage loans of the companies which report to Mr. Finlayson is .19 per cent. I believe ours would be about the same; it would not be more than that.

Hon. Mr. Calder: Less than one-fifth of one per cent?

Mr. Smith: Yes, sir; that is the commission item.

Hon. Mr. Hughes: That is about nineteen cents per one hundred dollars?

Mr. Smith: Yes, sir.

Hon. Mr. Calder: How do you account for the difference between your rate, practically two per cent, and the National Trust Company's rate of 1.56 per cent?

Mr. Smith: Well, I cannot account for it, Senator Calder.

Hon. Mr. Calder: What elements would enter in there to make that spread? Mostly the cost of collections?

Mr. Smith: There may be this about it, that we may have a larger number of loans of smaller sums, which would multiply and intensify the collection charges; one would have to know all the details of the assets of the two companies in order to get at that.

Hon. Mr. Calder: Where does the expense mostly come in outside of salaries, and say, rentals and taxes?

Mr. Smith: A very large item of expense, Senator Calder, is due to the much greater difficulty all mortgage companies have had in recent years in making collections, particularly on rural loans. Now, it has been mentioned that there is unfortunately somewhat of a lessening of the spirit of obligation on the part of the customer. It may be due—and I think it is to a large extent—to the fact that he himself in recent years has been more heavily involved with liabilities, is finding himself in deep water, and that he cannot live up to his obligations, as he did in other days.

Take our western business: the loans there are comparatively small. They are spread over wide areas, and our inspectors have to travel long distances. The difficulties created by these priorities, or prior charges, which have been created by provincial legislation, make it very important that we should know the borrower's exact position at all times, and we have to send an inspector out perhaps two or three times a year to see him.

Hon. Mr. Laird: Do you not make a special charge for this inspection?

Mr. Smith: Not always.

Hon. Mr. Laird: I understand that was added to the amount of the principal sum.

Mr. Smith: If they are, they are very often merely added to the amount of the loss.

Hon. Mr. CALDER: Mr. Chairman, might I read into the record a brief statement on that phase of the western situation? This is from the report of the Farm Loan Board in Saskatchewan, dated February 2, 1925. Senator Laird asked the question yesterday or the day before as to the attitude of the farmers toward the repayment of their loans. This is what the Farm Loan Board has to say about it:—

> While our collections show some improvement over the preceding year, the board is still far from satisfied with the spirit manifested by some of our borrowers.
>
> It seems difficult or impossible for some of them to realize that the board was established without any funds of its own and that in order to make a loan to an applicant the board has first to borrow the money for the applicant and has to undertake to pay interest on the money so borrowed, and that the board has no means of paying the interest on the money borrowed for an applicant excepting from the money to be paid by the applicant himself to the board; and that if he defaults in payment to the board he compels the board to default in payment of interest on the money borrowed for him, and that by so doing, he is injuring the credit of the board and making it more difficult for the board to secure the necessary funds to make loans at $6\frac{1}{2}$ per cent to the thousands of other farmers who are still paying from 8 per cent to 10 per cent on their mortgage indebtedness.
>
> Every effort is being put forth to impress upon the borrowers the necessity of dealing fairly with the board, and to respect its rights as first mortgagee, and to deal fairly with their fellow farmers who are still waiting to secure $6\frac{1}{2}$ per cent money, and it is gratifying to note that there has been some improvement.
>
> Prior to 1924 the board had acquired title to 59 farms. More borrowers abandoned their farms during 1924 and title was acquired by the board to 72 additional farms and ten farms were sold during the year. Many of the farms now on hand are rented on a share crop basis.
>
> There are signs of improvement in the demand for farm lands and the outlook for future sales at better prices is distinctly encouraging.
>
> The revenue for the year covered all operating expenses and depreciation and left a surplus of $64,041.92. Of this sum, $30,000 was transferred to Real Estate Reserve, bringing that account up to $50,375.95, leaving a net surplus for the year of $34,041.92. The surplus carried forward from the previous year amounts to $208,946.23 and the net surplus carried forward to the year 1925 stands at $242,988.15, exclusive of the Real Estate Reserve.
>
> Last spring the board was again requested in a number of cases to make advances for the purchase of seed grain to some of its borrowers. An aggregate amount of $11,362.31 was advanced for this purpose. Applications for seed grain were refused whenever it appeared that the borrower had had a fair crop and had disposed of his seed grain for other purposes.

So you will find all through this report they are having trouble in getting their borrowers to realize they must pay.

Mr. SMITH: That is our experience, Senator. I want to say this; that a great deal of it may be attributed, as I said a moment ago, to the fact that the borrower is more tied up with other obligations of various kinds. We find, when we come to resort—as we sometimes finally have to do—to proceedings in foreclosure, or some other action, and have to search his title, that there are so many other encumbrances and obligations that we do not wonder very much that he has difficulty.

Hon. Mr. CALDER: As a matter of fact, Mr. Smith, you have had three or four or five bad years? Things may change in three years' time, and the whole situation in western Canada may be changed.

Mr. SMITH: Quite so, but in the meantime there is that spirit, and it is manifested in various ways. It is manifested sometimes by a failure to reply to correspondence, and a great many of these western borrowers are foreigners who do not read English very well, and we cannot get any reply to our correspondence, and we have to send an inspector up to see them, perhaps two or three times. With all these prior claims eating up our equity, it becomes essential to see that some other creditor does not get away with a share of the crop that properly should come to us, and we have to send out and get a crop lease, or something of that kind, and in the harvest time, see that——

Hon. Mr. CALDER: That somebody else does not steal part of it?

Mr. SMITH: That somebody else does not get our rent, and this all contributes materially to the cost of operation, especially in doing a line of business where the average amount of a loan runs from $500 to $1,500, as a good many of ours do.

Hon. Mr. MCMEANS: I suppose your reference is to Alberta?

Mr. SMITH: I am referring to all three of the provinces. Mr. Rowell put in a statement a little while ago, in regard to the Alberta prior liens, and he has also put into the hands of the reporter the liens of the other provinces, and while they are not so severe, they do affect the equity of the mortgagee.

Hon. Mr. LAIRD: Is it not a fact, Mr. Smith, that the indifferent attitude taken by the borrower is largely confined to a period within the last 5 or 6 years, and the people got so involved that they threw up their hands, and were indifferent as to whether they stayed on the land or not.

Mr. SMITH: I would say that has something to do with it, although it has been more or less noticeable for the last 10 or 12 years, and probably has increased for a number of years, but was not quite so noticeable this last year, as conditions are improving.

Hon. Mr. WILLOUGHBY: There is one thing, Mr. Smith, I wanted to ask you. I want to find out whether there are economies in administration, as well as otherwise? The local experiences in the West, with which I am somewhat familiar, are that the costs of foreclosure and sales proceedings are very onerous.

Mr. SMITH: Yes, they are.

Hon. Mr. WILLOUGHBY: But under the government scheme, they are not so expensive, but give the government very drastic rights, which no private company enjoys?

Mr. SMITH: Those come by provincial law, Senator Willoughby, and I do not know why they should not be made applicable to every mortgage.

Hon. Mr. WILLOUGHBY: Neither do I, but I think they should.

Mr. SMITH: In this connection, I was going to mention a little later on something of these difficulties more particularly with regard to Alberta—where the conditions that have been created in foreclosures very often carry the case on for eighteen months, and sometimes two years, and even longer, during which time interest charges are accumulating, the taxes on the property are accumulating, the prior charges are accumulating, and the cost runs into several hundreds of dollars.

Hon. Mr. LAIRD: Are there any moratoria in existence out there now?

Mr. SMITH: No actual moratoria. There is some restraint on our rights to take action in Manitoba, under the War Relief Act, whereby a returned soldier may be relieved, but that gradually is being done away with. I think

in all of the provinces. That, of course, while it was in existence, was another hampering condition of which we were not very seriously complaining, but which was sometimes taken advantage of unduly and unwarrantedly.

Hon. Mr. Calder: What provision does your company make to take care of losses?

Mr. Smith: The provision we have made to take care of losses began a great many years ago, and has been along somewhat different lines from others, possibly. The effect of it has been that such losses as we have met—and we have met heavy losses—have been fully anticipated by the provisions made, covering several years past.

Hon. Mr. Calder: Would you care to give an estimate, Mr. Smith, of the amount that should be set aside? Take the province of Saskatchewan, with its $9 000,000 or $10,000,000 out. What fraction of the interest charged should be set aside each year to take care of losses?

Mr. Smith: I have given a good deal of thought to that subject, and I have tried to get some information from our records, but owing to the fact I have mentioned that in our present book assets the losses were anticipated by provision made some years ago, I was not able to ascertain the figures. I have had some of our officials going through the records for some considerable time, and they cannot get it for me, but in giving the question such consideration as I have been able, I would be inclined to confirm the statement made this morning, of about one-half of one per cent; not less.

Hon. Mr. Calder: I should judge that is about the position in Ontario.

Mr. Smith: I think in Ontario, if they are operating as they should, that percentage would be more than sufficient.

Hon. Mr. Laird: Will you deal with the question of rates charged, Mr. Smith?

Mr. Smith: Would you permit me to go on and say a word before I come to that, Senator?

I was going to point out the fact that, as I said, 20 per cent or 25 per cent of our western loans are urban. Of all our loans, I would say that more than 50 per cent are urban, and much more than 50 per cent of those in Ontario, though we have a number of farm loans in that Province with which we do not have much trouble while the urban loans do not give us any at all.

In the city of Toronto, for instance; we have not had a foreclosure action since 1900, and we do a large business there. The amount of foreclosures was mentioned this morning. We have not been quite as fortunate as the National Trust, with respect to our Ontario foreclosures, because, as I say, we have some business outside of the cities, but our foreclosures in Ontario, out of our $16,-000,000 of mortgages only amount to $40,000 or $50,000. Perhaps we have been a little more fortunate in the west in that respect, for our total foreclosures or properties on hand, at the end of 1925, amounted to $730,000; so, making allowance for the Ontario properties and for a few small ones in the eastern provinces, and in British Columbia, probably our foreclosed property in the prairie provinces amounts to about $650,000, or about four per cent of our loans in those provinces.

I have mentioned how these priorities and the costs and delays in connection with foreclosures, contribute to the losses and expenses. Now, I have been asked by Senator Laird, to say something about the rates.

The rates have gone up and down in the past 25 years just the same as the rates we have paid for our money have increased and diminished. Mr. Rundle referred to the fact this morning that our corporation is an amalgamation of our old company, organized in 1855, and three other companies which came in in 1900. At that time we had money from Great Britain on which we were pay-

ing as low as three and a quarter per cent, and three and one half per cent. Those rates increased from time to time. When the war came on, we had the opportunity of sending that money back, or keeping it, at an increased cost. The British government was paying 5½ per cent for money; other governments were paying even more. The Dominion government was issuing tax free bonds at 5½ per cent, and to retain that British money here, we had to pay as high as six per cent. I do not know whether we were justified in doing this or not; sometimes I am inclined to doubt it. We could have sent that money back at one time, and might have realized for our shareholders 25 per cent or more on the capital, by the difference in exchange. The Pound was down below $3 at one time, as against the par of $4,86. However, we did not do it, but we kept it here to enable us to renew our outstanding loans.

I will give you a sample of the rates of interest prevailing. In 1903, the average rate of the new loans we made was 6.67 per cent; the average rate in Ontario, 6.05 per cent; the average for Manitoba and Saskatchewan was 6.89 per cent. So we were loaning under seven per cent, 23 years ago. In the interim rates on all classes of borrowing had increased but in 1925 the average rate of all our new loans was 7.15 per cent, the average rate in Manitoba and Saskatchewan was 7.72 per cent, so we are getting down again toward the rate of 23 years ago.

Hon. Mr. CALDER: I don't understand that at all, Mr. Smith. What did you say you were paying for that?

Mr. SMITH: We have paid as high as six per cent for a considerable portion of our money.

Hon. Mr. CALDER: And when paying six per cent, at what rate did you loan it out?

Mr. SMITH: We were loaning it at eight per cent.

Hon. Mr. CALDER: A difference of two per cent?

Mr. SMITH: Yes.

Hon. Mr. WILLOUGHBY: You are giving the rate for the urban and farm loans?

Mr. SMITH: The farm loans have been eight per cent until comparatively recently. We are loaning on farm as well as urban land now, at less than that.

Hon. Mr. WILLOUGHBY: At what rate?

Mr. SMITH: Seven per cent, and seven and a half per cent.

Hon. Mr. CALDER: Would you say that the difference applied for several years, or pretty near it, at which you borrowed, and the rate at which you loaned, was two per cent?

Mr. SMITH: Generally speaking it has been about that. I think, perhaps, you will see that 25 years ago it was a little more than that. As I say, we had money as low as three and a quarter per cent, and three and a half per cent 25 years ago, but at that time our average rate was 6.67 per cent for new loans in that year.

Hon. Mr. SCHAFFNER: What were you charging in Manitoba five years ago?

Mr. SMITH: Eight per cent. We have renewed loans at less than that. We have loans made fifteen or twenty years ago on which the interest has never been higher than seven per cent.

Hon. Mr. CALDER: What portion of the spread, Mr. Smith, —I do not know whether you care to mention it or not, would be used in paying dividends to your shareholders? Could that be calculated?

Mr. SMITH: That could be calculated, but I cannot give it now. It depends largely upon the volume of business.

Hon. Mr. CALDER: What percentage have you been paying to your shareholders?

Mr. SMITH: We paid six per cent in 1900; that has been increased from time to time. It is now twelve per cent.

Hon. Mr. PLANTA: What is your capital?

Mr. SMITH: $7,000,000.

Hon. Mr. HUGHES: What is your reserve?

Mr. SMITH: $7,500,000. The present dividend is not quite six per cent on the shareholders' capital.

Hon. Mr. HUGHES: But the reserve was made up of earnings?

Mr. SMITH: Over a great period of years.

Hon. Mr. HUGHES: Made up of what earnings?

Mr. SMITH: A reserve equal to capital has been built up over a period of years, as a result of 71 years of business.

Hon. Mr. CALDER: Let me understand that. Would you say that during a period of, say, the last 25 years, the spread between the rate at which you got money, and the rate at which you loaned it was in the neighbourhood of two per cent right along?

Mr. SMITH: It has been more than that, Senator. Our average rate during that period increased from 6.67 per cent to 7.67 per cent, later to 7.76 per cent, and it came down last year to 7.15 per cent. As I say, we have been paying six per cent on some of our money, but not all of it. I cannot give you the average rate we have been paying during that period.

Hon. Mr. CALDER: It was possible that at one time you might have got cheaper money from the Old Country, at three and a half per cent, three and three-quarters per cent, or four per cent, and loaned it out at eight per cent?

Mr. SMITH: Not very much. The average would not be anything like that. At the time we were getting our money so cheaply we were probably getting six per cent, and 6½ per cent in Ontario, and in the west seven per cent, seven and a half per cent, and in odd cases, eight per cent.

Hon. Mr. LAIRD: Have you loaned any money at less than eight per cent in the last twenty years?

Mr. SMITH: Oh, yes.

Hon. Mr. CALDER: Not on urban land.

Mr. SMITH: We did not loan money on western urban land 20 years ago.

Hon. Mr. CALDER: But as a rule your rate on farm property in Saskatchewan was eight per cent?

Mr. SMITH: As a rule, but there are always exceptions to every rule, and they have reduced the average rate.

Hon. Mr. BEIQUE: I understood you to say, Mr. Smith, that you estimate that about two per cent is required to take care of the expenses of operation and losses?

Mr. SMITH: I think it takes at least that, where we have a fair proportion of business which can be readily and easily collected.

Hon. Mr. BEIQUE: How then did you come to accumulate and pay dividends, as you have done, and still accumulate quite a large reserve fund?

Mr. SMITH: The process began before I was born, Senator Beique, and it would take a long time to give the whole history of it, but its foundation was well laid in those days, and we have been building upon that.

Hon. Mr. McMEANS: There is one thing I do not quite understand, Mr. Smith, and that is the spread between the cost of management in your com-

pany, which no doubt includes the cost of obtaining your money—if you could eliminate that latter cost, could not the rate come down?—the difference between the cost of management and the difference between the rates at which you borrow and the rates at which you loan. Would not the rates come down? Can you give the cost of obtaining the money?

Mr. SMITH: I cannot give you definite figures. All I could do would be to make a guess at it.

Hon. Mr. McMEANS: A guess would be better than nothing.

Mr. SMITH: The elimination of the expenses of obtaining money might reduce the cost of management from .30 per cent to .40 per cent.

Hon. Mr. CURRY: Then there is one-half per cent loss from bad debts?

Mr. SMITH: I should think that would be only a conservative figure; nothing less than that would be considered sufficient.

The CHAIRMAN: Have you anything else, Mr. Smith, to offer to the committee?

Mr. SMITH: I have nothing else of particular interest to the committee, unless I were to say a word or two upon a subject discussed very fully this morning, and about which there seems to be a great deal of misunderstanding and misapprehension, and a great deal of interest evinced on the part of some members of this committee. That is the question of the long term amortized loan.

The CHAIRMAN: Proceed on that, Mr. Smith.

Mr. SMITH: It seems to be a general feeling that the companies have not been making long term amortized loans. While I do not speak for all the companies, my own company has been making these loans ever since it was organized in 1855. It was organized in 1855, under the Building Societies Act, the provisions of which required loans to be made on that plan, and when my company developed from a building society into a mortgage loan company, it continued to do that class of business. In fact, other companies which were established later on, made their loans under that plan.

When I entered the service of the company 44 years ago, a portion of a small ledger contained all our straight loans, and everything else was under the amortization system. I do not want to needlessly worry the committee, but I would like to say that I have in my possession circulars and tables with respect to this system, which have been used at various times during the past forty odd years. This one (indicating) was issued over 40 years ago; this one (indicating) a little later; this (indicating) a little later yet, and some have been issued quite recently, and they all advocate this system.

Some seven or eight years ago we issued this one (indicating), somewhat more extended in its advocacy of the system. We distributed many thousands of these (indicating) through the three prairie provinces. (To Hon. Mr. Calder). You will find Mr. W. E. Mason's name in that one (indicating), so you will see it is not a recent issue.

Our inspectors distributed thousands of them; they were put into the hands of all our appraisers, and all our officers had them. We advocated it strongly in the circular, and have done so in personal negotiations. That same circular was reissued not very long ago, but, notwithstanding all we have done in this way, I am satisfied the amount of western farm business we have under that system has not been sufficient to pay for the printing and advertising.

I have here the book of instructions which we send to every appraiser when he is appointed, and practically the same book has been used for a great many years. I would like to read for the information of the committee the first paragraph of the section, which deals with the sinking fund, or amortization plan:—

> The system of repayment by a small annuity is unquestionably the best system ever devised for the gradual extinction of debt. It is especially suited to the great majority of farmers, tradesmen, persons with fixed incomes, churches or other trusts, and all those whose funds are limited and obtained periodically and in small sums. Even merchants, manufacturers and traders in many cases find it cheaper, more convenient and less disturbing to their operations to repay loans in this easy manner, than to take from their business the whole amount at once.
>
> The corporation advances any multiple of $50; $200 is the least sum advanced, but loans of much larger amount are preferred.
>
> You will observe from the Loan Circulars that the loan tables are graduated and numbered; that loans may be repaid by monthly, quarterly, half-yearly or yearly instalments, and that these instalments may be made to fall due on the first day of any month the borrower chooses; the first, if yearly, to become due at any time not more than eighteen months from the date of the loan, and if half-yearly, not more than twelve months from the date of the loan. As the date of the payment is fixed in the mortgage, and cannot be changed without inconvenience, it is important that applicants repaying by half-yearly or yearly instalments should select a suitable time for paying; and as we wish to insure punctuality as much as possible, you are requested to satisfy yourself in each case as to this, bearing in mind that it will be better to choose a month later than the expected time, than a month too early.
>
> The rate of interest which the instalments are computed to yield, upon the unpaid principal, is set forth in the mortgage, and all sums past due and in default will be charged with interest at that rate.

I think that is probably as good a plan for this system in the limited space at our disposal as anyone could make who is supporting it to-day.

But our experience is the farmers of the West do not want it. I have discussed it personally with them when I happened to be in one of our branch offices and they happened to be in discussing their loans. We have a considerable volume of business under this system in the Maritime Provinces and some in Ontario, but we have very little in either of the three Prairie Provinces.

Hon. Mr. Calder: Have you any figures for that, Mr. Smith? We have a plan here—

Mr. Smith: I was going to say ours is not a thirty-year plan; we never extended it beyond twenty years.

Hon. Mr. Calder: Could you give me the figures for the twenty-year plan? The payments on $1,000 is $101, and some odd cents per year.

Mr. Smith: $101.86 includes interest at eight per cent, the same rate as we charged for loans on the other plan at the time.

Hon. Mr. Calder: So if he pays eight per cent it brings the payment up to $101?

Mr. Smith: The amount is added yearly for amortization, and brings it up to $101, and he is paying $21.86 per year for twenty years to wipe off the debt.

Hon. Mr. Laird: There are some companies operating on that basis now.

Mr. Smith: I cannot say how many. I am speaking of our own experience, and in answer to the arguments pressed very strongly before this committee that the companies were not willing to do business on that plan—

Hon. Mr. Calder: There was a representative from one company in Regina who told me they loaned over two million dollars under that plan in the last fifteen years and they never had a default in a single solitary case.

Mr. SMITH: That is fine, and I submit that if the borrowers would take loans on that plan of payment there would be fewer defaults and fewer foreclosures; but I think that you will find that that company has not loaned very much to farmers and apparently the farmers will not take it.

Hon. Mr. LAIRD: No, it is in the city, and is quite suitable to the requirements.

Hon. Mr. MCMEANS: A farmer would hardly care to borrow money at eight per cent. The rate might go down.

Mr. SMITH: Supposing it does; he can pay it off at any time he likes after five years. It is an insurance to him against its going up.

The CHAIRMAN: Are there any other questions, gentlemen.

Hon. Mr. CALDER: Have you any suggestions to make Mr. Smith? Assuming that the bill is going through, have you any suggestions to make that you think will improve the bill outside of this question of cost of operation, and so on.

Mr. SMITH: No; I confess that I have not, outside of the cost of operation. We strongly feel that you cannot carry on on a business-like basis unless you amend subsection five of section seven. Beyond that, I have nothing to say.

Hon. Mr. SCHAFFNER: Do I understand the farmers of the West do not want long term loans?

Mr. SMITH: We cannot find those who do want it. Our customers do not; those who have been in the habit of coming to us.

Hon. Mr. SCHAFFNER: I would be glad to have that information because it seems to me that is the cause of the new Bill.

Mr. SMITH: We have spent a good deal of money trying to popularize it amongst our customers, and the customers of our appraisers and inspectors.

Hon. Mr. CALDER: Which would you prefer yourself, Mr. Smith, the short term or the long term loan?

Mr. SMITH: The long term.

Hon. Mr. CALDER: Why?

Mr. SMITH: The particular reason is that we have had less trouble in collection in connection with long term loans.

Hon. Mr. DANDURAND: But it means ten per cent a year for amortization.

Mr. SMITH: Yes, including amortization.

Hon. Mr. CURRY: Do you not think, Mr. Smith, that if the Government took up this matter they could serve the farmer better than you are serving him?

Mr. SMITH: I have my opinion about that, but I think perhaps it would not be modest for me to express it.

The CHAIRMAN: We will take that for granted.

Hon. Mr. LAIRD: Is it not a fact, Mr. Smith—I do not know whether it is a provincial law or a federal law, but as a matter of fact, money can be loaned by a company on the amortization system, but it must specify in the mortgage that the rate of interest that the contract is based on is so much?

Mr. SMITH: I know that is the law of Ontario, but I cannot say positively whether it is necessary to have a provincial law to cover that.

Hon. Mr. LAIRD: It is in effect in Saskatchewan in any case.

Mr. SMITH: Mr. Finlayson reminds me that the Dominion Interest Act provides that the rate of interest must be clearly specified in the mortgage.

Hon. Mr. HUGHES: Could you give the average length of your loans in the west?

Hon. Mr. CALDER: Are they mostly five or ten year mortgages?

Mr. SMITH: A good many of them are ten year mortgages. We have advocated ten years when we could not get the mortgagor to take the amortization plan.

Hon. Mr. CALDER: Do you require payment on the principal each year, or does the entire loan fall due at one time?

Mr. SMITH: There is no invariable rule about it, but we prefer a small repayment each year, and usually the mortgage is drawn to provide for it.

Hon. Mr. HUGHES: Would the average term be for seven years?

Mr. SMITH: The average term in the three prairie provinces would probably be seven years, because the farmer has not always availed himself of the ten-year term.

Hon. Mr. CALDER: Where does the Ontario man get most of the money he borrows?

Mr. SMITH: Latterly, from private individuals.

Hon. Mr. CALDER: At what rate?

Mr. SMITH: Any old rate.

Hon. Mr. CALDER: As a rule they do not pay much more than five per cent or six per cent?

Mr. SMITH: They pay from five per cent to seven per cent.

Hon. Mr. CALDER: There must be a very large business done by private individuals in the province of Ontario.

Mr. SMITH: I have known of cases, Senator Calder, where when the Dominion tax-free five and one-half per cent bonds were being offered, Ontario farmers were loaning money to their neighbours rather than buy the bonds.

Hon. Mr. CALDER: Would you say that the great bulk of the loaning in Ontario is done through private individuals?

Mr. SMITH: I am not in a position to speak authoritatively, but that is my opinion.

Hon. Mr. LAIRD: Done through solicitors?

Mr. SMITH: Yes; perhaps one of their clients has brought in some money for them to invest, and they loan it to another. A great many years ago we had many farm loans in Ontario, but to-day they are comparatively few.

Hon. Mr. CALDER: That situation does not exist in the west at all. The number of individuals who loan on the farms is very small..

Mr. SMITH: Yes.

Hon. Mr. DANDURAND: In the province of Quebec, before the government loans during the war were developed, a farmer could always get a loan from another farmer in the community.

The CHAIRMAN: They do it to-day.

Hon. Mr. DANDURAND: Yes, but money has become much scarcer, because they have loaned and loaned on bonds.

Hon. Mr. CALDER: In the province of Quebec, the farmer, much of the time, would not pay much more than five per cent or six per cent?

Hon. Mr. DANDURAND: I think six per cent.

Mr. SMITH: Twenty-five years ago we had loans on farms in Ontario as low as five per cent.

The CHAIRMAN: Thank you very much, Mr. Smith.

The witness retired.

Hon. Mr. Rowell, K.C.: I think, Mr. Chairman, we have covered the ground so thoroughly with these two witnesses that it will be only multiplying the testimony if we asked representatives of other companies to give evidence. Some of them would show a higher rate for management, and some would show a lower. But we think the Canada Permanent—the oldest and one of the most efficiently managed loan Companies in Canada—should give you a fair average and the nearest parallel to your Farm Loan Board, because it is carrying on business throughout the whole Dominion.

The National Trust represents another class of institution whose business is not confined to loaning, and we think their cost of management fairly represents the position of such companies, and if we called other witnesses they would be but repeating testimony already given. If you care to have it, I will give you the experience of the company, with which I happen myself to be connected, just on two or three of these points. It simply confirms the testimony already given.

The Toronto General Trust Corporation—the oldest Trust company in Canada, and very conservatively managed—had on the 31st of December, 1925, $19,000,000 in loans in Ontario, divided between the country and the city, more largely urban than rural, but still a substantial number of farm loans in Ontario.

And in the prairie provinces, $6,500,000. Our arrears of interest in Ontario on that $19,000,000 of loans and over, on the 31st of December, was $34,207, and of that a substantial part was only in arrears for a few weeks.

In the prairie provinces on loans of $6,500,000, we had $279,582 interest in arrears, and that was a substantially better showing than we had in the two preceding years, because last year, as you know, there was a very good crop.

Hon. Mr. Calder: That would represent nearly four per cent?

Hon. Mr. Rowell: That would represent a little more than four per cent. With over $19,000,000 of loans in Ontario we only had $25,600 of foreclosed land on hand. In the prairie provinces we had $471,426 of foreclosed lands on hand.

Now, in addition, we had conditional sales agreements of $162,813, and agreements for sale of $352,714 of foreclosed property, making a total of $986,953, of property that had been foreclosed, on total loans of something over $6,000,000. I think the foreclosures in the western provinces, if you take all the companies together, would average not less than 15 per cent of the total amount of loans outstanding.

There is one other point I would like to mention, just to clear up a matter mentioned by Mr. Smith in speaking of the cost of getting money for investment.

There is the capital and the reserve of each company. They nearly all have a reserve equal to their capital, which is in use all the time, and there is no cost for getting that part of the money for investment.

Hon. Mr. Dandurand: I forgot to ask Mr. Smith if his company received deposits, like the National Trust?

Mr. Smith: Yes.

Hon. Mr. Rowell, K.C.: Yes, but at a substantially lower rate than debentures. They pay four per cent on deposits. Our company does not take deposits at all; it is simply a Trust company. Last year $152,000,000 of assets was administered, with a capital and reserve of something less than five per cent of this amount.

May I draw attention to another provision of the Bill, because of the illustration of the possible results of Government operation as shown by the testimony given by the representative from Manitoba this morning. You will see that under this Bill not only is there no interest charged on the basic capital for three years, but there are no dividends to be paid, nor interest to be paid on the five per cent of all the loans made, which the government of Canada must subscribe, nor five per cent on all loans made which the province must subscribe,

nor five per cent which the borrowers must subscribe, unless there are profits out of which they can be paid. If therefore you frame a Bill which is not on a sound financial basis, it means that you will do what Manitoba has done, and there will be no dividends. In other words, you are not only providing the $5,000,000 basic capital, but you are also providing additional capital to the extent of 15 per cent of the aggregate amount of all loans upon which they are not bound to pay anything except out of earnings, and if there are no earnings, nothing will be paid upon it.

Hon. Mr. Beique: Not if the borrower has had this retained out of the loan?

Hon. Mr. Rowell, K.C.: They have that amount in respect to which they are not called upon——

Hon. Mr. Beique: But it is retained out of the loan, so it is paid.

Hon. Mr. Rowell, K.C.: It is paid, but if I may remark, Senator Beique, they get interest with respect of that from the borrower, so they have the benefit of it in that sense.

Hon. Mr. Calder: But they do not allow him any interest in turn, unless there are profits?

Hon. Mr. Rowell, K.C.: Unless there are profits.

Hon. Mr. Beique: They pay the interest on this capital from year to year, and then deduct when he pays the loan.

Hon. Mr. Rowell, K.C.: I thought I had made that point clear.

Hon. Mr. Schaffner: Someone has to pay interest on that $5,000,000.

Hon. W. B. Ross: You say the Government will have to go good for all of it?

Hon. Mr. Rowell, K.C.: Yes, that is the point.

Then the only other point I desire to call your attention to is clause 15 of the Bill, which reads:—

> The Minister may purchase from time to time, on behalf of the Dominion of Canada, from the Board, bonds issued by the Board, which bonds shall be repurchased by the Board when funds for that purpose become available through the public sale of Farm Loan bonds; provided, however, that the amount of such bonds held at any one time by the Minister on behalf of the Dominion of Canada shall not exceed fifteen million dollars.

I presume it is the intention that these bonds should be repurchased by the Board at the price which the Government of Canada pays for them, but it is not so stated in the Bill. I assume the intention is that the Government shall be fully recouped, principal and interest, for any bonds it may purchase under this clause, but I do not think the clause as it is at present drafted necessarily means that.

Mr. Chairman and honourable gentlemen, may I sum up in a sentence or two the testimony which has been given in reference to the cost of doing business? You have had Mr. Finlayson on the cost of operations of all the loan companies in Canada. He gave that last Friday, and I think he gave the average as 1.50, based on mortgage investments all over Canada. Loans in the west are undoubtedly more expensive than in the east, and the average cost for the west would therefore be substantially higher than 1.50. You have had the testimony of the gentlemen to-day, with practical experience, to the same effect, and in our view, based upon this experience, it is not possible to be safe unless at least 1.50 per cent is provided for the cost of operation and 0.50 for reserves to cover losses, etc., or two for both.

Hon. Mr. Calder: In the province of Saskatchewan, according to the statement, the Board, after operating for eight or nine years, still owes over $200,000 on account of moneys advanced to start them off in business.

Hon. Mr. Rowell, K.C.: The provincial treasurer's observation as to the cost of doing business in Saskatchewan would fully confirm what we said; it is only if the borrowers play the game that they can do the business at from one and a half to two per cent; if the borrowers do not play the game it should be at a higher figure.

The Chairman: I understand you desire to have somebody heard after Doctor Tory has been examined. You understand that he will be here to-morrow morning, and if you have any party you wish examined, have them here to-morrow. We will meet in Room 262, at ten o'clock.

Whereupon the committee adjourned until Tuesday, June 16, 1926, at 10.00 a.m.

Wednesday, June 16, 1926.

The Standing Committee on Banking and Commerce met this day at 10 a.m., for the purpose of considering Bill 148, to establish in Canada a system of Long Term Mortgage Credit for Farmers.

Hon. G. G. Foster in the Chair.

Dr. H. M. Tory, President, National Research Council, was called.

The Chairman: Dr. Tory, this Committee were instructed by the Senate to listen to such evidence as you had to offer with regard to the various points embodied in this legislation. We have had the advantage of hearing a very full, frank and clear explanation from Mr. Finlayson, from his standpoint; and we have heard from Mr. Rowell and Mr. Smith and the representatives of the Toronto loan companies, giving their viewpoint; also some evidence from the West, and we will probably have some more. The Committee felt that if they could hear from you any explanation that you saw fit to give, outlining exactly what you think about this legislation, of which we recognize that you are more or less the father, we would be glad to hear it.

Dr. H. M. Tory: I would begin by making a general statement, after which I will be glad to answer any questions. To begin with, I must not assume the responsibility of being called the father of Agricultural Credit Legislation in Canada. Agricultural Credit is a very old subject, even in Canada, and I only came into it by being asked by Mr. Fielding, then Minister of Finance, if I would make a report for the Government on it. My connection with the subject began some years ago when I was invited to join the American Commission to go to Europe to study the whole question as practised among the various European nations. The document I hold in my hand is a copy of the report of that Commission. This report which I participated in compiling was published by the United States Senate in 1914. Its bulk is an indication of the amount of study and work put into it. I suppose my connection with that Commission was the reason why I was asked to interest myself again in the subject by the Ex-minister of Finance.

I was especially asked to report on the position of affairs in the United States of America and Canada. My first report on the subject, which was published as Sessional Paper No. 142, shows my findings in that connection.

Certain facts with regard to long-term credit stand out definitely. Of these perhaps the most important is that in all countries of the world where land has increased to a settled value, the time arrived when the ordinary routine mortgage system of the country was found inadequate for the needs of agriculture, and as a result a system of long-term mortgages on an amortization basis was substituted. In most countries the plans are based on the repayments of the mortgage over a period of from 30 to 70 years. The average period in France would be probably 50 years. In Germany conditions are similar to those in

France excepting that the method is different. The money required for loans is raised by the sale of bonds maturing in a corresponding number of years.

Another important fact is that in all these countries it was found necessary to either give direct government support or definite government regulation; that is to say, government regulations and supervision were both necessary in carrying out such projects. A third fact is that as long-term mortgages were based on properly assessed land values, the security was such as to secure much more reasonable rates of interest than were current, and what is equally important, to equalize interest rates over large areas of country.

The question upon which I had to make up my mind was—had we arrived in Canada where the present financial machinery of the country was really meeting the needs of the Canadian agriculture, or whether some new machinery should be devised for the purpose, following the examples of other countries. That the question was a live one is shown by the fact that for some years in nearly every part of Canada agitations with respect to the matter were going on among farmers' organizations.

In my effort to get information I made an extensive study of the American system. The authorities at Washington placed at my disposal the fullest information possible. In my first report I tried to bring together a comprehensive statement covering the whole situation (1) generally in Europe and (2) particularly in the United States. In this report no definite recommendations were made as I frankly hoped that the publication of such definite information would perhaps lead to a betterment of the situation.

A year later, as the result of a motion in the House of Commons, I was asked to further study the matter and, if possible, make formal recommendations. My second report, published as Sessional Paper No. 152, presents the difficulty under which it seemed to me Canadian agriculture was labouring, particularly agriculture in Western Canada. I pointed out the significant fact that the agricultural population of the country was slowly decreasing in relation to urban population. The question was whether the causes were financial and, if so, could any arrangement be made that would benefit agriculture directly. I sincerely tried to approach the whole subject in an impartial manner. The subject was discussed with representatives of the loan companies and the farmers in order to determine whether some recommendation could be made that would remove the cause of the agitation and possibly the agitation itself. I finally came to the conclusion that some form of long-term mortgage credit was absolutely essential to the future of agriculture in Canada, and further that in order to build our agriculture solidly and substantially in this country some financial machinery was necessary that would act definitely in the interest of agriculture; that is, our financial machinery having been created very largely in the interests of business, such machinery was not adjusting itself quickly enough to the needs of agriculture.

I was impressed with another important consideration—that we seemed to be at the parting of the ways in the development of the agricultural industry on the continent as a whole, particularly so in Canada; that is to say, agriculture must either be developed as a business along business lines, having financial organizations suited to its needs, or we would ultimately drift back to the peasant conditions of Europe. If the first were done we might hope to hold our Northern European farmers on the land; otherwise a peasantry like that of Central Europe would be the natural development. I firmly believe it is in the interests of Canada as a whole that everything possible should be done to assist agriculture to develop along sound business methods based on proper education and proper financing. I state this merely to show you how my mind was affected by the study and why the recommendations of my second report were made.

In meeting the loan companies my first desire would have been to see some co-ordination of effort among the loan companies to meet this need; but, broadly speaking, I found that there was not a recognition of the necessity for the long-term loan. I think that it is even claimed by the managers of the great loan companies to-day that in spite of the agitation, there is not a great need for action along this line. Further I felt that long-term loans carried along with them some considerations in regard to the lower rates of interest. I was ultimately, with reluctance, driven to the conclusion that it was necessary for us to take steps to create a Dominion organization of some kind that would think in the terms of the agricultural development of this country, and whose business it would be to associate itself quite entirely with agricultural development. Out of that grew the recommendations of this second document with respect to long-term loans. Further, it seems to me that we were not ripe, and are not yet ripe in this country, for the system of short-term loans, or intermediate credits as they call it in the United States. While the intermediate credit system in the United States has done some good, not only in causing banking organizations to be more considerate of the needs of agriculture—I will not say be more liberal—it has not attained the dimensions of being a very definite part of the financial machinery of the country, and in my judgment it will not be so, because the State Bank organizations of America, to a very large extent, are bound to continue to meet that need. I came definitely to the conclusion that if short-term credits were to be undertaken it should be by machinery created by the Provincial Governments themselves, and under their own guarantees and responsibilities; but that the long-term credits might and ought, if created at all, to be made a function of the Dominion authority, leaving the other to the provincial authority. These ideas are set forth in the second report.

Having so decided, the question arose as to the best way of creating a system of long-term credits. I have always felt, and feel still, that direct government guarantees and direct government loans related men too closely to the machinery of active politics, and that a way should be found to separate the plan, as far as possible, from political machinery. The Bill you are now considering is to some extent the result of my thinking upon that subject, and in the main I associate myself with the principles that are laid down in it. Others working with me would, I am sure, put themselves in practically the same position.

Hon. Mr. BLACK: Do you think that in that Bill you have got rid of that?

Dr. TORY: I was just going to explain the motive of it. It seemed to me that if we could bring into cooperation the Dominion Government as the guiding agency in the matter, and local Governments in to help create the machinery and share the responsibility financially, and the farmers, our borrowers—following the American plan to that extent—bring them into the machinery as well—that we would have a plan as free as possible from political interference. Here I am expressing an opinion that may not be worth anything to men of experience like yourselves, but I do not think it is possible for any Government business to be freed entirely from politics. I believe that this scheme would be as free from politics as is possible, and still have the Government give it guidance and direction. That was the motive in creating the kind of machinery that is outlined here. That is my point of view, and that is my answer to your question, sir. Now, that sharing of responsibility as between the three organizations is the crux of the whole financial machinery of this Bill. The other question that arose, that had to be faced, was the question of the method of administration, and the cost of administration. I understand that the latter is one of the points of discussion at the moment. On this point I gathered information as widely as I could. The United States Government fixed a differential between

the cost of money and the loans, at 1 per cent, that 1 per cent including all costs, losses and reserves. I recognize that in Canada there is likely to be greater chance of heavy costs because of our scattered population than in the United States; but the information I received from the great American banks —take the one at St. Paul—was that they have paid dividends on the stock of the Land Bank to the farmers holding the stock at a rate as high as 10 per cent and that that was being done out of the 1 per cent. Further the Land Banks had paid off, of the original $9,000,000 advanced by the United States Government for the purpose of starting the machinery, nearly $8,000,000, and they have now in the reserve fund nearly $7,000,000.

Right Hon. Sir GEORGE E. FOSTER: What institution is that?

Dr. TORY: The Federal Land Banks of the U.S.A., they take in the whole United States. They have paid dividends from the beginning on their stock, and they have undivided profits and surplus amounting to $12,765,000. That is the position the Americans are in to-day on the basis of one per cent differential, to include the losses and administration cost.

Right Hon. Sir GEORGE E. FOSTER: What is the amount out-standing.

Dr. TORY: About $1,000,000,000 out-standing on the 31st of December, 1925. They have a tremendous business. Take the Bank of St. Paul; it is doing a business of $100,000,000. They are paying their dividends and running expenses from approximately ½ of 1 per cent, and carrying their administration charges. Of course they are doing a business that we cannot be doing for a long time in Canada, and for a population nearly that of Canada, the bank serving roughly 8,000,000 people. The states served by that bank are Minnesota, Wisconsin, Michigan, and North Dakota. Now, it is a question as to what extent we can carry business in Canada on a 1 per cent differential. I do not think 1 per cent will carry the business administration and possible losses and reserves. In the House of Commons I understand the Bill was amended, making 1 per cent the maximum for administration costs, leaving the question of reserves and losses to be cared for at the judgment of the Board. I speak with some hesitation on the cost of administration. My judgment would be that 1 per cent would carry the administration costs in Canada if you make provision for the others extra. I know the statement is being made that that is not so, and that experience in Canada for the last six or seven years by the loan companies has shown that it is not; but I do not think it is quite reasonable to take the last seven years—the worst years we have ever had in the history of Canada—as a basis for our calculations, just as I do not think it is fair to take what happens to be going on in Germany and France to-day as a basis for calculating what our competitive position is with regard to the European markets.

With regard to the necessity for the act my judgment is it is required, and I believe, if passed, time will demonstrate its efficiency. There will be use for it on a considerable scale. It will grow slowly. It will provide something that will reach a very large body of people that the loan companies themselves to-day are not ready for—people who are just outside the ordinary limits to which loan companies are apt to go.

Hon. Mr. HAYDON: It has been said that there is no demand for it, on that point.

Dr. TORY: My answer is that at every farmers' convention held in Western Canada since 1912 resolutions favouring a system of agricultural credits have been passed. I will go farther, and say that the same thing was said in the United States, yet the American Federal system has lent $1,500,000,000 under this machinery; and in addition to that the loan companies in the United States, and insurance companies, have gone into the loan business on the amortization basis. For example, in the United States amortized loans are made by the insur-

ance companies on the same basis as those of the Federal Land Banks. That is not in dispute. May I add that to offer farmers amortized loans without taking into consideration that the long-term loan carries with it a reduced rate of interest is, to my mind, childish. I make that with all due respect to the men who say otherwise. When I asked the loan company managers, who stated their willingness to give long-term loans, if they were willing to consider a reduction in interest rates on that basis, they answered me "No". There was no other argument I could have under those circumstances; if a long-term loan does not carry with it lower rates of interest, then there is something wrong with the security. I think a farmer who would take a loan at 8 per cent on a long term would be a very foolish man.

Hon. Mr. Black: The conditions in Canada are different from those in Europe, where land passes down from father to son and to grandson. In Canada there does not seem to be a desire on the part of the young men to assume long obligations; does not that account for what has been stated here by more than one person, that there is apparently no demand in the West for these long-term loans, notwithstanding that the farming organizations ask for them? They ask for lots of things.

Dr. Tory: I recognize that, but I do not think the farmers' organizations should be accused of asking for more foolish things than other organizations do. In Saskatchewan they began before the period of depression, and now they have approximately $10,000,000 on these long-term loans, and they assure me they could put out double the amount, but the obligation becomes very serious for the province to handle.

Hon. Mr. Calder: Why should Saskatchewan not be ready to lend more money out?

Dr. Tory: The chief reason is that the provinces of Canada to-day generally are obligated to the point where further large obligations may endanger their credit. I am only telling you what the treasurers of the provinces say to me. The western provinces entered into their obligations in building railways, which was a new kind of guarantee, and if the western provinces had been forced to face their guarantees they would all be out of business to-day. I do not think they would be able to get a dollar from a foreign country.

Hon. Mr. Casgrain: They had a first mortgage.

Hon. Mr. Calder: But I do not think the prairie lines were the best part of the railway.

Hon. Mr. Todd: There is no question at all that the amortization scheme of long-term loans in the United States has been a great success.

Dr. Tory: It has done two things. It has created a definite interest rate covering farm mortgages from the Atlantic to the Pacific; it has stabilized interest rates enormously.

Hon. Mr. Beique: Is there not more risk in a long-term loan, on account of changes from depreciation or periods of depression, than on short-term loans?

Dr. Tory: I do not think so; not on farm lands. It is true you may strike a period of depression, as we have done, but when you take the German experience you find that during the period of 150 years that they have had the amortization system it has grown enormously, and before the collapse of German finances in 1920 there was over a billion dollars out, and during the war that security stood firm. During the Napoleonic wars the bonds of the Land Credit Banks were worth double the ordinary government bonds, because they were based on land security. If the loan were based on buildings your statement would be correct. If I am wrong in my judgment that lower rates of interest should go with long-term security, then this Bill should not be passed. The principle of the recognition of lower rates of interest for long-term security

seems to me to be one of the soundest and most practical principles in business. If you get a long-term loan you get a better rate of interest. I think that is almost an axiom.

Hon. Mr. CALDER: Is not the position in Western Canada, that the Governments are afaid to increase their obligations, due to the fact that only a certain percentage of the loans offered can be accepted? That is, they are reaching the danger point if they extend their credit much beyond what they have done.

Dr. TORY: That is not the information I received from the Government authorities. The question of their being unable or afraid because of the security has never been raised with me at all. They have not expressed such a judgment; they have expressed the belief that this matter was of such great importance to Canada that it would be sound and wise for the Dominion to co-operate with the Provinces in a Dominion system based somewhat on the American practice.

Hon. Mr. CALDER: Do you think the co-operation of the Federal Government with the Provinces, as provided for in this Bill, will result in securing more money and at a lower rate of interest than the Provinces would secure?

Dr. TORY: It would scure it at as low a rate; I could not say that it would be lower. Taking money as it is at the present moment, the information I received from the large banking houses is that it would probably be on the money market at about 5 per cent—about the same as the Provinces are now borrowing at on their own direct credit.

Hon. Mr. BEIQUE: Ontario is borrowing at 4 per cent on deposits.

Dr. TORY: Yes, they are getting deposits, but I think I am safe in saying that there is not a Government outside of Canada that would be willing to go largely into lending long-term loans on the basis of savings bank deposits.

Hon. Mr. REID: How would it work to the advantage of the farmers of Ontario to work through the local Government with this Bill? They are loaning at 5½ per cent.

Dr. TORY: I hesitate to speak for Ontario. I had a discussion with the Ontario authorities last year, and I am afraid that discussion should be regarded as confidential, but I think I might say that the position of Ontario was that they were not sure whether they would benefit under this scheme or not.

Hon. Mr. CALDER: The evidence from Ontario is that through their savings bank they get all the money they need at 3½ and 4 per cent, and lend it at 5½ per cent.

Dr. TORY: But those are savings banks borrowings, and I think the Ontario Minister of Finance said to me—I would not be absolutely positive—that he would regard it as rather a dangerous practice to make 30-year loans to any considerable extent on savings bank deposits.

Hon. Mr. CALDER: They have $10,000,000 out.

Dr. TORY: The $10.000.000 was not got that way. They may have loaned money so obtained but they have authority under the Act to sell bonds at any time without going to Parliament to cover themselves. Ontario may take that risk, no other province would.

Hon. Mr. REID: They have got sufficient money from the savings bank deposits to loan what they have invested, and they pay 3½ and get 5½ per cent for the loan.

Dr. TORY: That is not the information that the Ontario authorities gave me.

Hon. Mr. DANDURAND: Do you say that the Ontario Government places bonds on the market?

Dr. TORY: They have the right under their Act. I would not make the statement, offhand, as to what extent the $10.000.000 out has been from the sale of bonds, but the Farm Loan Board received money from the Government, and the Ontario Government takes responsibility directly for the loan.

Hon. Mr. REID: Of course the Ontario Government is responsible for the amount invested; so will be the Dominion Government under this Bill.

Dr. TORY: Yes.

Hon. Mr. REID: Because as I understand the Bill, $15,000,000 will be put into this scheme by the Dominion Government; at least they can borrow up to the extent of $15,000,000

Dr. TORY: No, that is not correct.

Hon. Mr. REID: I mean buying the bonds by the Dominion, which is practically the same thing, so that when the Dominion Government buy these bonds and hold them they are practically responsible for them.

Dr. TORY: Yes, but no one would for a moment consider that the Dominion Government's $15,000,000 was the ultimate amount that would be loaned under this scheme. If Canada continues to grow I would suspect that the proportion of farm loans under this scheme would be about 20 per cent, as in every other country. In the United States they have eight or nine billion dollars loaned out on farm mortgages.

Hon. Mr. REID: Why could not some kind of scheme like the Ontario Government's be adopted in the Western Provinces so that farmers could get money at 5½ per cent instead of 6½ and 7 per cent, through the savings bank plan?

Right Hon. Sir GEORGE E. FOSTER: It seems to me that the weakest of all bases for long-loans is the savings of the people in the banks, which they can call upon the next day, or within a month under a different regulation. If something should happen that caused the people to make a run on the savings bank what would become of the basis of the scheme?

Dr. TORY: My judgment would be that the most unsafe thing for any Government; unless it felt itself absolutely sure that at any moment it could raise money on bond sales which it has already taken authority to raise, would be to make long-term loans on the basis of ordinary deposits. In Saskatchewan I should say $2,000,000 of their $10,000,000 have been loaned out as the result of their savings, but the balance has resulted from the sale of bonds directly.

Hon. Mr. LAIRD: They have no savings banks in Saskatchewan.

Dr. TORY: They have two Acts—the Long-term Act, and then what we call in Alberta the Savings Certificate Act.

Hon. Mr. LAIRD: They buy savings certificates.

Dr. TORY: It is the same thing. Depositors have to give three months' notice to get their money back.

Hon. Mr. CASGRAIN: Is there any provision in this scheme for the Government getting the money back? The Dominion Government would never sue farmers to get their money back.

Dr. TORY: The Dominion Government will not handle this directly; that will be done by the Local Board, the same as in the United States. If I had my way with this Bill I would have a clause in it that made it unnecessary to sue in case of default, but would allow under certain conditions the right of entry upon property. I would also have a clause with respect to priorities, by which I would wipe out all priorities except where there was a regular tax levy by the Province and the municipalities.

Hon. Mr. GRIESBACH: Would you give this scheme priority over all other companies?

Dr. TORY: I would wipe out priorities as well except where they represented a regular tax levy. Further I would give the right of summary collection on amortized loans where loan companies satisfied a public board that they were living up to regulations corresponding to those prescribed for the Land Loan Board.

Hon. Mr. Black: You consider that those priorities, particularly in the three Western Provinces, are a considerable handicap, do you?

Dr. Tory: Well, I made a good deal of inquiry about the priorities, and I may give you frankly my judgment, and I think I am in agreement with the statement that I understand was made by Mr. Rundle the other day about it. I was told by some managers of loan companies that those priorities meant an increase of 1 to 2 per cent in interest rates. I suggested to the loan companies that they permit me to go to western governments and say, "If you will remove priorities the companies offer you so-and-so with regard to interest rates." I did not find a single manager of a loan company who would say that the removing of the priorities would decrease the rate of interest, but what they did say was, "We would be able to lend more money on a mortgage if the priority were not there." I do not for a moment believe that the priorities really were the cause of keeping money from being loaned in Western Canada to farmers. When loaning stopped in Western Canada the farmers were nearly all in difficulty due to after-the-war conditions, and no one was asking for money except to pay off old debts; the mortgage companies were not very willing at that time, with their heavy obligations, to assist in that direction. The result was a conflict between the various creditors and the farmers, and loans were not made. Some companies continued to make loans steadily on the basis I have suggested, namely, by reducing the amount they would make in Provinces where there were priorities, making it a factor in the estimate of what they would do. I asked some of the Banking organizations—places where bonds might be sold—if that would be a satisfactory arrangement, that in cases where the priorities existed there should be a reduction in the amount of loan. Their opinion was that the main priorities other than taxes ought to be removed. They would not commit themselves definitely about it, but on the whole they were not favourable to that idea. Answering a question of Senator Calder, I would say I have always regarded agriculture as fundamental to the Dominion as well as to the Provinces, and any scheme that would affect the total of agriculture, placing it on the basis of security for the whole country, should have behind it the Dominion as well as the local Government. I do not think it is quite an answer to say, "Well, could not the local Governments do it themselves?" I believe there should be created a financial organization which would think in terms of agriculture for Canada. In this Bill there is a clause, No. 11; personally I would have put it under clause 3, making the advisory council part of the regular administrative machinery. The purpose is to bring together at least once a year, the men interested in agricultural finance for a full discussion with the Minister of Finance, of the financial problems of all the Provinces. This would result in a common understanding of the problems of agriculture for Canada as a whole, as a means of creating a Dominion feeling with regard to it, as distinguished from the provincial attitude. Referring to the point raised by Senator Calder in reference to the fear in Saskatchewan that it might not be wise to extend their obligations, I would say that the difficulty is not in the security not being good, but the problem is to convince people at a long distance that the security is good; and the way to make it good is to put something substantial behind it, so that people at a distance will see that it is good. I think Western members have done the country some harm by the remarks about them being bankrupt. My experience is that the Western provinces are not much worse off than the Eastern provinces. I doubt if Saskatchewan is worse off than Ontario. The difference is that Ontario is better known than Saskatchewan in the money market. I think that is the difficulty with the Western provinces. I am sure the fear on the part of lenders of too great a national debt would create as much difficulty for large financing as if the debt really existed. I gathered that impression in Alberta. The fact that Mr. Dunning himself put the Bill through the House was an indication of his mental attitude that the

passing of this Bill would be a sound thing to do. I think he was very wise to be guarded in his statement in reference to long-term mortgage loans being made from what is equivalent to savings bank deposits. I am sure that is the correct interpretation of what he said.

Hon. Mr. Calder: In reference to the spread between the rate at which money is borrowed and that at which money is loaned, do you think there should be provision made for the payment of dividends on the stock subscribed, that is, the 5 per cent. I mean plus provision for the return of the money advanced by the Federal Government with interest?

Dr. Tory: The assumption is that the money is being properly loaned, and that ultimately it will be repaid; therefore the question of making special provision for its return seems to me unnecessary. If we are doing a sound mortgage business the money will be returned ultimately, and provision is made in the Bill that as earnings are made, consistent with the reserves being kept at a fixed amount, the Government shall be repaid whatever portion of the $5,000,000 the Board receives. The process of repayment will go on as the reserves accumulate, with interest at 5 per cent after three years. The Government will be in exactly the same position as other bondholders; they will be paid when the money is due, out of moneys that some in from the amortized principal.

Hon. Mr. Calder: I want to know whether in your judgment the spread between the rate of interest at which money is got, and the rate at which it is loaned, should be of such a character as to undoubtedly take care of the cost of operation plus the original borrowing from the Government and the necessary reserves.

Dr. Tory: If I understand your question I would say certainly not. The spread should certainly not take care of the repayment of the $5,000,000 as advanced in the beginning; that is invested in mortgages. The repayment of that will be made when the mortgages themselves are paid. The only losses there will be are losses on the mortgages—1 or 2 per cent, if you like. Provision should be made to cover losses, but I do not think provision should be made in the differential to take care of the whole sum, which would be repaid in due course by the amortization loans being repaid. I do not know much about loan company business, but I would be surprised to find that any loan company had written into its charter that it must make provision for repayment of stock subscriptions to its shareholders except by using original capital. As I understand it, the shareholders take that risk. The assumption is that this business will be properly conducted, and the mortgages will be repaid, and all you have to do is to take care of possible losses on the mortgages. I think that should enter into the differential, but not the sum total of the whole.

Hon. Mr. Calder: Suppose there is $2,000,000 loaned out in Manitoba; the Government will have to put up 5 per cent, that is, $100,000; is that to be a contribution?

Dr. Tory: No; in course of time it is to be returned with interest, assuming that the Board remains solvent.

Hon. Mr. Calder: Then should not that spread be of such a character as to take care of that repayment with interest?

Dr. Tory: No; it should take care of the repayment of the possible losses on the capital only. The capital will come back, because the money is put on mortgage, and the capital will return when the mortgage is paid.

Hon. Mr. Calder: But you cannot have any dividends unless the spread is sufficient to take care of the dividend.

Dr. Tory: I agree with that absolutely, as far as dividends are concerned.

Hon. Mr. Dandurand: But the Bill foresees that there will be enough income to create a reserve.

Dr. TORY: Yes.

Hon. Mr. CALDER: Not on the limitation of 1 per cent.

Hon. Mr. DANDURAND: Well, the Bill tells us that under that 1 per cent for operation expenses, plus an increase for possible losses, that in the management the rate of interest will be such as to bring the necessary return to meet these obligations, and to create a reserve.

Dr. TORY: This section provides that the 1 per cent shall only be for administration costs; that the Board shall have the right to add to that whatever is deemed necessary for the purpose of losses and reserves; so that under this Act they could fix it as 2 per cent if they wanted to.

Hon. Mr. CALDER: Why not put in there—"sufficient amount to place a sufficient sum to take care of at least the interest on the money that has been advanced?"

Hon. Mr. DANDURAND: Does not that go without saying?

Dr. TORY: That is implied.

Hon. Mr. LAIRD: It would not do any harm to say so.

Dr. TORY: May I emphasize this one point, that this Act as it now stands allows you to put the spread at 2 per cent, 2½ per cent, or 3 per cent if you like, but the administration cost must be 1 per cent; all the rest is an extra.

Hon. Mr. DANDURAND: Do you not think that for the first year, at least, the operation costs will go beyond 1 per cent?

Dr. TORY: It is possible that the first year they would. My judgment is that the cost of administration of this scheme will be far less than for the ordinary loan company. I suggested to the loan companies that they should co-ordinate their efforts to reduce their overhead. I know small towns in Western Canada where 6 or 7 loan companies are at work, each with their men employed, so that the cost of loaning money in Western Canada to-day is excessive. By co-operation among the loan companies themselves the management could greatly reduce the overhead charges.

Hon. Mr. DANDURAND: To cover that increased cost for the first, second and third years you have the $50,000 free interest on, say, $1,000,000 in order to bring about some stability.

Dr. TORY: That is so.

Hon. Mr. REID: You have more than that; the province has to put up 5 per cent.

Hon. Mr. SCHAFFNER: According to the evidence received here it seems that there will only be three provinces that will want to take advantage of this Bill.

Dr. TORY: I do not believe that for a moment. I think the Maritime Provinces will promptly take advantage of it.

Hon. Mr. MCMEANS: What effect would this Bill have, if it goes through, on the development of the country in the West?

DR. TORY: I am going to give a very frank answer to that question. It is my judgment that if we go on financing western agriculture on the basis on which we are financing it to-day, in a very few years western agriculture will be on its knees; and I believe if we put our heads together and create something that is associated with agricultural effort generally, including all educational movements that will be associated with it in the provinces, that this will go a long way—getting the co-operation of the loan companies with it as well—to get agriculture to stand on its own feet. I have lived in the midst of agricultural depression in Western Canada during the years after the war, and if anyone wants to feel depression, if it was not that I am perhaps of a buoyant temperament, it was enough to drive me out of the country. In the years 1922,

1923 and 1924 a desperate depression settled upon everybody. The fact is that a very large number of people have left Western Canada because they saw no way out of their financial difficulties. I can go to sections of the country where there are farmhouses with the furniture standing in them, and the people are out of the country. Many of those could have been saved if loans were made on an amortized scheme. This condition was created, largely by the authorities of the various Governments stimulating different kinds of production during the war. There are men in Western Canada who, if they could get rid of half the land they own, would be better off, but to-day they are under a load of debt. The first work that should be done is the arrangement on a long-term basis of loans for those men, who would then be able to see their way out. I think a large number of those men would be helped by such loans. I believe this scheme will develop as the Land Bank of Minnesota has developed. I talked yesterday with a gentleman from Minnesota, and he told me that the coming of the Land Bank scheme into Minnesota and North Dakota had saved the situation for them there, and that the use of the money in making improvements stipulated for in the loans had resulted in the whole temper of North Dakota being changed. They are going into mixed farming as quickly as they can. Otherwise money was not provided by the Land Bank.

Hon. Mr. Lynch-Staunton: What is the farmer going to get, better than he is now getting, out of this proposition?

Dr. Tory: Take the illustration of a farmer in Western Canada with a mortgage of $3,000, with obligations that crowd him, accumulated during the period after the war, owing the implement companies a certain amount of money, perhaps another five hundred dollars, and owing the bank a certain amount of money—those three organizations wanting their money, and wanting it quickly, and also the storekeeper. The man is unable to pay these liabilities, yet he has property worth $7,500 or $10,000. If he were able to take all those obligations and consolidate them into an obligation that he could take 30 years to pay, do you not think he would be in a better position? He would be in a position that would put heart into him, instead of being broken-hearted, as I know hundreds of men are. If an organization on the part of the loan companies had been brought into existence, I know many men in Canada who would have welcomed it as one way of solving their difficulty; but there was no effort made in the direction I have indicated nor was the necessity for a long-term payment plan recognized. Take the man whose case I used as an illustration, if he got his loan at 7½ per cent, with 30 years to pay it, at the end of the thirty years his whole debt is paid.

Hon. Mr. Lynch-Staunton: What is he doing now?

Dr. Tory: On the average he is paying 8 per cent, and the debt is not being paid; it is an obligation against him; he is not reducing the principal. If he happens to have a legacy or a streak of extra luck he may pay off the whole amount, of course. This scheme would put a man in a position of realizing that he can see his way through. That is the real difference between the two methods. At present loan companies make five-year loans, and in the cases of good credit they may extend the loans, just as a bank that took a three months note would be willing to extend to six months but the man feels that in a few years he has probably got to pay, and he will sacrifice to do it. If he is indebted to a bank the man does not know that he is going to be carried. The bank will not give him an absolute assurance that he will be carried, with the result that his whole financial affairs are on an untenable basis. I believe we will soon come to the position in Canada where every loan company will be on the long-term basis.

Hon. Mr. Lynch-Staunton: What is the cost of the operation of this scheme, in your judgment?

Dr. Tory: I would assume that in the course of 10 years—for we must look ahead a little bit—we would have worked out the scheme. It would take five years to get going well. Over a period of 10 years I would look for an investment of $50,000,000 or $60,000,000. We might sit down and work out theoretically what that would cost, assuming that we did not know the details. Another way would be to take the experience of loan companies doing the same kind of business elsewhere, and base the estimates on that. In France they do it all on six-tenths of one per cent, and they do an enormous business. The French Government, through the machinery of the Credit Foncier, had something like 25 billion francs out in 1920. The United States loans were made at one per cent for amortization and one per cent for charges and losses.

Hon. Mr. Lynch-Staunton: Is that 2 per cent?

Dr. Tory: No; 1 per cent is amortization of the principal, and 1 per cent is cost and charges and losses; that is the total. I do not think we could do it as well. If I were asked to decide definitely I would certainly leave a fair margin above that 1 per cent, but I would like to have some latitude for five years at least. If I found I were moving in the wrong direction I would make further provision, or bring down rates if I found I were charging too much.

Hon. Mr. Lynch-Staunton: You would start with how much?

Dr. Tory: I was not fixing the amount. I would make up my mind as to what the amount would be. I have not really worked out the detail, but I think I might work it on the rate of the United States. My judgment would be that we should start with a reasonable differential, and I would think—here I may bow to the loan companies—I think this business could be run more cheaply than the loan company business could be run. I would think 1 per cent for the administration cost would be enough, but I would make more liberal allowance for the other charges.

Hon. Mr. Lynch-Staunton: If you start at 1 per cent, how are you going to raise it afterwards?

Dr. Tory: It seems to me easier to come down than to go up. If it were found, after starting, say, at 3 per cent, that that figure was too much, we could give borrowers the benefit of the difference. If we only provided 1 per cent and required 2 per cent we would go back to the original Bill and take out the limitation of 1 per cent. This limitation was made in the House of Commons. As the Bill was originally drafted it did not have that 1 per cent differential. It said that the differential would be sufficient to meet so-and-so, mentioning the three specific things, and let the board decide what that would be; but an effort has been made to get a definite amount fixed. On the whole I think that is a mistake, especially as the dividends over 5 per cent go back to the borrowers by way of credit on their loans.

Hon. John Webster: Is it a fact that the majority of the loans in Alberta last year were made to farmers to buy motor cars?

Dr. Tory: I do not think I should answer that question, Mr. Chairman. I am willing to say, however, that that is part of the slander against the western farmers, and I speak with a knowledge of the western farmers. There is a rumour that we are extravagant in a lot of things, but that is not true. It does not represent the mentality of the western farmers.

Hon. Mr. Calder: In the United States have they only the one plan of one per cent?

Dr. Tory: So far as amortization is concerned, you can have two or three plans. One per cent will pay it off in thirty-two years, and two per cent in about twenty-two years, approximately.

Hon. W. B. Ross: As I understand you, you attach more value to the amortization principle in itself than to the rate of interest.

Dr. TORY: I would put the amortization principle first, and the rate of interest second; but I would say that it would be useless to put into this Act a differential that from the very beginning would make it unworkable. I would rather trust to the common sense of a properly constituted board to fix that differential.

The CHAIRMAN: I think Mr. Rundle has something further to say.

W. E. RUNDLE was recalled.

Mr. RUNDLE: Gentlemen, like Dr. Tory the last gentleman who appeared before you, I have made considerable study of the various rural credit schemes in vogue throughout the world. I want to say in the first instance that the needs in Canada are being met. Take for instance the illustration given by Dr. Tory of a man who has a debt to the mortgage company, debt to the bank and debt to somebody else. All right, that man can get a mortgage to the extent of fifty per cent, and sometimes we even go as high as sixty per cent of the value of his property if we think he is a good man. I do not know of a single case of a man who is a good man and who has security to offer who cannot get his money.

Hon. Mr. LAIRD: On the amortization principle?

Mr. RUNDLE: No, I am not speaking of the amortization principle at the moment. I am speaking of the supply of money for mortgage loan purposes. My own company for instance at this very moment will willingly put out money in Manitoba, Saskatchewan and Alberta at least $2,000,000, if you will get us first class security.

I quite understand that there may be those who would like money but who have not the security to offer, but it would seem to me that in order to meet that need to which Dr. Tory has referred you would perhaps want to have a different Bill than the one before you. You would have to recognize the principle that it was in reality a direct subsidy. If you had such a Bill, then I am quite satisfied that the cost of operation under it would not be 1.56, as shown by our experience—and that is over a period of years—but would be far greater, and that the average that you would have to provide for losses would not be .50, but would also be something greater. So I submit, in the light of experience, that if this Bill which is before you is adopted the cost of administration should not be less than 1.50, and that you would be dealing but fairly with the situation at 1.50 and .50 for losses. But if it is designed to meet another need where there is no security, then you would have an increased cost of operation and also you would have to increase the amount necessary to meet losses. I think, gentlemen, that is obvious.

Now, to deal with the systems in vogue in Europe and in the United States. In Europe conditions are entirely different. The three great lending organizations on co-operative principles in Europe are the Landschaft organization in Germany, the Danish Credit Association in Denmark and the Credit Foncier in France. Look where they are operating. They are operating in countries of great density of population. Those countries are not asking for immigrants; they are not crying out as Canada is that one of the great solutions of their problem is to get a greater density of population. Their difficulty is that population is too dense. Consequently, in the operation of those businesses, if a property comes on their hands, they are not put in the position, as we are to-day, as the Saskatchewan Farm Land Board is to-day, and as the Manitoba Farm Land Board is, of looking for someone to come and occupy that property and take it over as a purchaser. They have ten or a dozen people knocking at their door to take over any property that comes on their hands.

Let me give you one illustration which I think will suffice to clear up this point and get it concisely before you. The Danish Mortgage Association has

out on mortgage—and I have their permission to use this information before you—to-day $800,000,000. Their foreclosed properties amount to $13,500 only. The mortgage loan companies of Canada have out in Manitoba, Saskatchewan and Alberta between $250,000,000 and $300,000,000, and they have on their hands no less than between $25,000,000 and $30,000,000 of foreclosed properties. Now, gentlemen, if any of us were carrying on business and had to meet the risk of the business interpreted in the terms of the figures I have just mentioned to you, would we charge more in the one case for our product than in the other? Would we not have to take into consideration entirely different conditions in the one case than in the other?

Western Canada is still a one-crop country, and will be for some time to come. That is a great element, because if the one crop fails we have to carry over the borrowers, as we do carry them over in western Canada, for one, two, three, or four years. It is a one-crop country. In Europe there is diversified farming. If one thing fails there is another at hand. I submit, gentlemen, that conditions are entirely different. Yet, what do we find? What principles do they adopt in those favourably situated countries when they come to deal with these quasi Government concerns? Do they adopt Government assistance, Government aid? No. Government supervision? Yes. They apply the co-operative principle in that they make the group responsible for all the borrowings of everybody, and if "A" fails, "B," "C," and "D" have to make up for the failure of "A."

Dr. Tory shakes his head. I have it from the Danish Co-operative Association that the members of their groups are security for all in that group until the bonds that have been issued in respect of that group are paid off, or until such time as a man pays off his mortgage, and the only way that he can pay off is by buying the bonds of the series of that group.

Dr. TORY: The credit systems of Europe started out on the principle of complete joint responsibility. They have all changed over slowly, generally to the double liability principle. Those associations are responsible for a certain liability, as Mr. Rundle says, but few of them take the general, wide responsibility that he speaks of.

Mr. RUNDLE: Let us clear that up, Mr. Chairman, because it is important. I maintain that the information given to me from the Danish Credit Association is this: If you want to borrow from them you become a member of the association. You pay to join, I think it is one and a half per cent of the amount of your loan. You make a mortgage in favour of the association for $1,000, say, at five per cent. You are not paid in cash. The association issues its bonds secured on all the property in that group. The borrower goes into the bond market and sells his bonds. In 1925 the bonds were selling at 79 or 80 cents on the dollar, and a few months ago 85 or 87 cents. In other words, the borrower got $850 or $870 for the mortgage which he had given of $1,000 at five per cent, so that the interest which he pays is really considerably more than the five per cent.

Then, the mortgages are all responsible for the group of bonds which have been issued, but the borrower has the right to go into the market and buy the bonds and discharge his debt by delivering back the bonds which he has bought. Then, when the next meeting of that group of the association takes place, they will discharge him from his obligation. You will see there the important element of co-operation, of responsibility one for another.

Why, even in the United States system they have responsibility, because a man who becomes a member of the National Farm Loan Association subscribes for stock in that association, and, if I remember aright, he is subject to call to the extent of double liability.

Dr. TORY: Five per cent.

Mr. RUNDLE: Under the Bill before you you provide that five per cent of the stock is to be taken by the borrower. In the United States they provide that not only must the borrower take stock for five per cent, but if anything goes wrong he is subject to a further double liability.

Hon. Mr. CALDER: Of what value would that double liability be if the farmer were in difficulties?

Mr. RUNDLE: Well, perhaps it would not be of much account here in this country; but I point out that in the United States it would be a good deal. The co-operative principle, the joint liability in Europe means a great deal. The reason it does not mean very much in Canada is that the security here is not as good, and that strikes at the basic principle with respect to lending. That is what I get back to.

Under this Bill it seems to me that those are differentiations which in all fairness must be taken into consideration and must be provided for if this effort is, as our good friends say, an effort for the purpose of supplying money on a perfectly sound basis. I submit that all the evidence, whether in Europe or in the United States, points in the direction of the Bill now before you not being sound. The people of Canada will have to put up the difference out of their pockets in general taxes. That is my opinion.

Hon. Mr. DANDURAND: If the rate is not sufficiently high.

Mr. RUNDLE: Exactly, sir. If it is not put on a business basis.

Hon. Mr. BEIQUE: Last night we were left under the impression that two per cent would be quite sufficient.

Mr. RUNDLE: My own view is that two per cent is the lowest possible amount you could put in and be sure of not making a loss, and I am not sure that even at two per cent you would not make a loss. So far as I am personally concerned—I know it is difficult for a man to speak without any bias where his interest is concerned, and I am not going to try and transcend myself; but on the other hand, as a citizen of this country who is interested in this country in many directions, I have endeavoured to give fair consideration to the proposition which is before you, and I give you my sincere view for what it is worth, that two per cent in that Bill is a low percentage.

Hon. Mr. HAYDON: May I ask if you would suggest for the sake of practical legislation that the draughting of the Bill might be left as it was at first?

Hon. Mr. DANDURAND: Without the amendment of the Commons?

Mr. RUNDLE: Well, here again you gentlemen are much better able to size up the situation than I am. Looking at it from outside, I cannot help thinking—and I think Dr. Tory himself made some reference to it—that in all matters of this kind there is bound to be a political element. Men who represent the country are bound to have pressure brought upon them, and what I would fear, unless you make some fixed rule, is that pressure will be brought upon the organization to set a low figure, hoping that experience will bear it out. Dr. Tory says put it low, it may not cover the cost.

Dr. TORY: I did not say that exactly. I said put it at a reasonable rate.

Mr. RUNDLE: I rather got the impression that this was the view.

Dr. TORY: I would let the Board have full control in fixing the rate.

Hon. Mr. DANDURAND: Dr. Tory, in striking an average, spoke of a fixation of rate in view of what will take place in the next five or ten years. You do not speak of fixing a uniform rate for the first year and saying "So much will suffice?"

Mr. RUNDLE: My view is this. I go on experience, because after all, while experience is not always an exact guide, yet I do not think we can afford to ignore

it. And I submit that even in the experience of the United States Farm Loan Boards, the figures of which are before you, you cannot find that in their initial year they carried on with less than two per cent. I would take the accumulated experience of all those organizations that have given evidence before you. Possibly it would be difficult, in fact, impossible, for me to interpret it at less than two per cent. I would start out with two per cent and would say, "That is the result of experience." If, after we have been going for a while we find that two per cent is too high, then I would come down and meet the actual experience; but I do believe, having regard to the way in which human nature works, and having regard to all that is included in the word "politics"—and I do not use it in any small sense, but in the broadest and highest sense—that once you adopt a certain rate you will find it very difficult to raise it, and the people will have to pay the piper out of their pockets.

Hon. Mr. SMITH: You mean that covers not only administrative expenses and losses—

Mr. RUNDLE: Two per cent for administration and losses.

Hon. Mr. REID: And reversions?

Mr. RUNDLE: Administration and losses.

Hon. Mr. LAIRD: Is not the very wide experience you have had largely confined to loans in the ordinary way—five, six, ten year loans? Have you ever taken into consideration the fact that losses might be reduced under the amortization plan, with which I understand you have had no experience?

Mr. RUNDLE: I do not see how they would be. I do not see why we should assume that. In those older countries you have density of population and the demand for the property; that is why the cost there is so small and you do not have the losses. I cannot get it into my mind that because you make a man a loan for thirty years with a part payment each year you are likely to avoid losses any more than under the other circumstances.

Hon. Mr. TODD: The expense of operation on a long term loan is less.

Mr. RUNDLE: You may save some expense on a thirty year loan.

Hon. Mr. BEIQUE: And it is a good education for the people.

Hon. Mr. TODD: You told us you paid one per cent commission?

Mr. RUNDLE: Yes.

Hon. Mr. TODD: And when that loan is retired and you make a new loan you add another one per cent. That is two per cent.

Hon. Mr. DANDURAND: I draw attention to the fact that all this discussion assumes that the cost of operation and losses is between one and a half and two per cent. That is a difference of one half per cent. We are not very far off if we look at the situation as it is.

The Committee adjourned until 8 p.m.

OTTAWA, Tuesday, June 22, 1926.

The Standing Committee on Banking and Commerce met again to consider Bill 148, An Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for Farmers.

Hon. G. G. Foster in the Chair.

COLIN FRASER, Commissioner of the Saskatchewan Farm Loan Board, Regina, was called.

The CHAIRMAN: Mr. Fraser, this Committee has met to learn all about the line of business that you know about, and we will be glad to have you tell the

Committee fully whatever you have to say in regard to this matter. We have not adopted the method of asking questions, but would just like you to open your heart and tell us how we can improve this Bill.

Hon. Mr. DANDURAND: How we can lend the money in Saskatchewan.

Hon. Mr. BEIQUE: At a profit.

Mr. FRASER: The Saskatchewan Farm Loan Board has been in operation now for 9 years. Our first loan was made in September, 1917. In that period we have loaned out about $10,000,000, although our assets are now considerably below that, the Provincial Treasurer finding it difficult to raise funds for us for a number of years. In fact, since December 1920, we have been almost marking time.

Hon. Mr. DANDURAND: That is, receiving payments and investing?

Mr. FRASER: No; we have not been investing the payments that we receive. Every dollar that had been collected by the Board has been turned over to the Provincial Treasurer, who is authorized by the legislation at each Session to advance to the Board a definite sum for the succeeding fiscal year. For the last three years he has been authorized to advance to us only half a million dollars a year.

Hon. Mr. BEIQUE: Each year?

Mr. FRASER: Each of the last three years. We had half a million in the last year, while we collected over a million, so we are going down, of course, in the volume of business.

Hon. Mr. BEIQUE: What is the amount outstanding now?

Mr. FRASER: Between eight and nine million.

Hon. Mr. DANDURAND: For the $500,000 you have been allowed to loan, have you found a demand?

Mr. FRASER: Oh, a tremendous demand—tremendous demand.

Hon. Mr. DANDURAND: You could loan how much more?

Mr. FRASER: If we had had the funds that were necessary we could have loaned $50,000,000 since we started.

By Hon. Mr. Laird:

Q. All your loans were on the amortization plan?—A. All on the same plan.

Q. Over what period?—A. Thirty years.

Q. Do you find that that system meets the popular demand?—A. Very popular.

Q. More so than five or seven-year loans?—A. More so, particularly because of the fact that the board has been allowing anyone to pay off his loan at whatever time he wishes.

By Hon. Mr. Dandurand:

Q. After what day?—A. After one day. We have had one paid off in seven months.

By Hon. Mr. McMeans:

Q. What rate of interest do you get?—A. Six and a half.

By Hon. M. Calder:

Q. Has it always been six and a half?—A. Always six and a half; that is the actual rate of interest. For amortization for $1,000 each instalment is $76.58; that is a shade over seven and a half per cent, covers both the principal and interest.

Q. For thirty years?—A. Thirty years, yes.

By Hon. Mr. Daniel:

Q. What proportion of farms in Saskatchewan are mortgaged for loans?—A. It has been estimated that there are about $100,000,000 of money loaned; roughly, that is the amount of mortgages in Saskatchewan.

By Hon. Mr. Calder:

Q. At what rate did the Provincial Treasurer get the money?—A. Five per cent, up till perhaps a year ago, when the rate was lowered to 4½ per cent on new offerings.

By Hon. Mr. Dandurand:

Q. You say $100,000,000; would that cover the towns, or simply the farms?—A. I think the farms only.

Q. What proportion of the farms would it cover?—A. I think more than three-quarters.

Q. What amount do you loan on the value?—A. We limit ourselves to 40 per cent. Although the Act limits the board to 50 per cent, we as a matter of prudence make it about 40 per cent.

Q. On the value of the land and buildings?—A. The value of the property as a whole; the value of the farm as a whole.

Q. So from 1917 to this date you have been loaning?—A. Yes, but quietly the last five years.

Q. Have you had many lean years?—A. Oh, yes, many; we have had very lean years.

By Hon. Mr. Beique:

Q. What amount of land have you on your hands due to foreclosure?—A. I should say from 125 to 150 farms. I may say that I had short notice to come down here, and we had a delay on the railway, and I had no time to make great preparation, and had no idea what would be required from me, so that I can only answer in pretty general terms.

By Hon. Mr. Willoughby:

Q. The Government gives you money at 5 per cent; have they been able to market their bonds freely enough to supply you with the money at that rate?—A. Yes, at 5 per cent, that is, what they have supplied us with, but they were not able to get the funds that were required. In fact, in December, 1920, we were practically stopped, and while we have done a little loaning since then it has been very small.

Q. They have been selling their bonds as freely as they could locally and otherwise, making an investment for bonds, for sinking funds, and various trustees for municipalities bought them freely to help out the scheme?—A. Yes.

Q. They are a good investment?—A. Yes; a number of institutions have been doing the same—the Saskatchewan Farmers' Mutual Fire Insurance Company, I think they put all their funds in our bonds, and the Saskatchewan Municipal Hail Insurance Association put their surplus in our bonds.

Q. Still you have not been able to get resources to carry on, equal to the demand?—A. No; the province itself has not been prospering too greatly till last year or so, when it has done much better; but the things we had to buy were high, and the things we had to sell were away down after the war. The province has been very badly hit since the war. During war times there were good prices for everything the farmer had to sell.

By Hon. Mr. Calder:

Q. Have you any reserve for losses?—A. Yes, we have a reserve of a little less than $300,000.

Q. How has that been built up?—A. From our surplus earnings year after year. We went behind the first two years, and since then we have been earning; that is, we have been more than covering our expenses.

Q. What value will be represented in those 125 or 150 farms you have on hand?—A. They may represent a half million.

Q. Taking your business as a whole to date, do you estimate that you have been keeping your head above water?—A. Decidedly.

Q. Without any question?—A. Yes, without any question.

Q. You think your business is established on a sound basis?—A. Yes; if we were forced to liquidate all our farm loans we have surplus enough to more than make that up. In fact, we have made almost no losses on farm lands that we have disposed of so far.

Q. What do you figure your cost of operation to be by itself, leaving out losses and reserve?—A. Of course the cost of operation will vary with the amount that we have actually loaned out. It has been perhaps an average of about 1 per cent with us. For the first year or two, 2 per cent, but as the volume increases the percentage will be smaller. The amount of money involved in lands on hand at the end of 1922 was $396,260.39.

Q. You think your cost of operation is now about 1 per cent?—A. Yes.

Q. Mr. Dunning, in his budget statement this year, intimated that it would run, including provision for losses, from $1\frac{1}{2}$ to 2 per cent?—A. I think 1 per cent will cover our expenses, including our expenses of management, inspection, and that sort of thing, but we pay $5\frac{1}{3}$ per cent to the Provincial Treasurer, who has been borrowing this money at 5 per cent until the last year or year and a half, when the rate was lowered on those bonds to $4\frac{1}{2}$ per cent, but he has been charging us $5\frac{1}{3}$ per cent; that is what it has been costing the Board—one-third of one per cent above what it cost the province. For instance, they had to pay commissions on bonds which were sold through the banks and financial agents.

Q. So you have had to return $5\frac{1}{3}$ per cent to the Provincial Treasurer?—A. We have been paying $5\frac{1}{3}$ all this time to the Provincial Treasurer; that is what the money has cost the Board.

Q. But you have paid that one-third out of the earnings?—A. Yes. We have been operating on what you may call $1\frac{1}{2}$ per cent basis; that is, the money supplied by the Treasurer was costing the Treasurer 5 per cent, and we have been lending at $6\frac{1}{2}$, so we have $1\frac{1}{2}$ per cent margin between the rate on the bonds and what is paid by the borrower. For instance, if we sold bonds at par at 5 per cent without any expense, we would have $1\frac{1}{2}$ per cent.

Q. And you have been doing that to the extent of loans amounting to about $10,000,000?—A. Yes.

Q. And you have succeeded in building up a reserve of $300,000, and you consider your business is on a firm basis, and if you required to liquidate you would have no losses at all?—A. Exactly.

By Hon. Mr. Laird:

Q. Has your experience been that in view of this being a Government institution, or under the auspices of the Government, the farmers have been dilatory in making their interest payments because the money was practically owed to the Government?—A. Yes, there is that disposition on the part of a great number of farmers. Of course the condition of the farmer in Saskatchewan for the years that we have been operating—we have gone through the bad years since the close of the war, for we began in 1917—and the condition for a number of years was a very trying one. The farmers did not have the money, in fact, to pay everybody; some years there was not one in a hundred of them had enough to pay all his debts, and our rate being only $6\frac{1}{2}$ per cent while many of their other debts were carrying 12 per cent, 10 per cent, and 9 per cent, the disposition of the farmer was to pay off the debts at the higher rate first. It

is in his personal interest to do that if he is permitted to do it, and he has reckoned that the Farm Loan Board would not put him out of business. We were not supposed to be established for the purpose of doing that.

Q. Do you find that disposition to the same extent now that conditions are better?—A. Well, the extent is practically the same for new loans, but it has been the purpose of the Board to educate farmers out of that notion altogether, and we have taken drastic steps to compel them, and a man who has been a borrower for several years knows better now. But the first year, of course, all he gets from us is a notice that on the 1st of November a certain instalment falls due, and if we do not hear from him in a couple of weeks after the 1st of November we get after him again, but by that time his money is gone, and if he has not paid us we have to wait until the next year.

By Hon. Mr. Calder:

Q. Do you pay all your own expenses?—A. Yes, rental, staff, etc.; the Government does not pay any portion at all.

Q. How much did the Government advance in the first place, to start the plan going?—A. They just advanced us money by way of a loan as we required it to cover our expenses.

Q. Do you owe the Government anything on that account?—A. Yes, we owe them now, I suppose, over $200,000.

Q. Have you been paying part of that right along?—A. This last year, the end of 1925, was the first payment we were able to make on those administration expenses—not because we had not earned it, but because we had not collected it.

Q. That $200,000 would be the money the Government advanced during the first two or three or four years to establish the business, was it?—A. No, that was advanced every year. They have been advancing us every year, and they continue to advance to us. They have for several years been advancing at the rate of $5,000 a month—$60,000 a year.

Q. Why should that advance be made if your business is running at a profit?—A. Our profits are still unrealized in cash. This is the first year we were able to pay the Provincial Treasurer—1925—all the interest we were owing him.

Q. Does that $200,000 include interest you owed the Government?—A. No; we don't owe the Government a dollar of interest now.

Q. Then that $200,000 was for operating expenses?—A. For operating expenses, yes.

Mr. FRASER: At the present time the farmers are owing us perhaps $400,000 or $500,000 of interest that we have not been able to collect, although we have paid the Provincial Treasurer every dollar of interest.

Hon. Mr. CALDER: This $200,000 apparently has been advanced for operating expenses and organization.

Mr. FRASER: Yes.

Hon. Mr. CALDER: How is it you have not been paying a portion of that during those eight or nine years?

Mr. FRASER: Because during the first eight years we were not collecting enough to pay even our interest. We were owing the Provincial Treasurer on the 31st of December, 1924, about $198,000 for interest and $269,000 for moneys loaned to us to pay our expenses.

Hon. Mr. CALDER: But that money will all come in to you in the course of time.

Mr. FRASER: Yes, except what we may lose. Some of it may be lost. We think we will collect every dollar that is owing to us. We will of course make some losses, but will make up for those out of surplus earnings.

Hon. Mr. CALDER: And you think the rate of $6\frac{1}{2}$ per cent will be sufficient to take up and pay that $200,000 in the course of time?

Mr. FRASER: Yes.

Hon. Mr. WILLOUGHBY: You are bound to make gains as well as losses on the properties that come in through foreclosures?

Mr. FRASER: Oh, yes, our gains will probably more than offset our losses.

Hon. Mr. McMEANS: What rate of interest do the loan companies charge the farmers in Saskatchewan?

Mr. FRASER: The normal rate has been 8 per cent, but during the last three or four years a good many renewals have been made at $8\frac{1}{2}$ per cent and 9 per cent.

Hon. Mr. CALDER: We have evidence to the effect that they are now loaning at 7 per cent.

Mr. FRASER: That is just lately.

Hon. Mr. CALDER: The last few months.

Mr. FRASER: There is a good deal of money being loaned in restricted choice districts.

Hon. Mr. DANDURAND: What have been your losses or profits on foreclosed lands?

Mr. FRASER: We have made a few small losses, but have made a good deal more profits.

Hon. Mr. BEIQUE: I suppose that a year or two ago you had a good many more properties on hand than you have now.

Mr. FRASER: No, we hadn't any more. We get them on hand a few every year. We have about as many now as we had a year or two ago.

Hon. Mr. CALDER: Do you pay any taxes?

Mr. FRASER: We have paid out a great deal of money for taxes.

Hon. Mr. CALDER: You don't pay any income tax.

Mr. FRASER: No, the Board does not pay any taxes, except municipal taxes for lands on hand. I thought you meant for the borrowers.

Hon. Mr. LAIRD: Do the loan companies offer loans to the public on the amortization plan?

Mr. FRASER: I think not, on farms. Perhaps one company may, the Credit Foncier. They may lend on the amortization plan on perhaps a ten-year term.

Hon. Mr. LAIRD: But they do not push that kind of business.

Mr. FRASER: They did for a long time. I think you can get a loan from them now on a straight term.

Hon. Mr. LAIRD: But on the basis of 8 per cent?

Mr. FRASER: Oh, yes, 8 per cent.

Hon. Mr. CALDER: What is the limit of your individual loans?

Mr. FRASER: There is no limit fixed by the Act.

The Hon. the CHAIRMAN: What ratio?

Mr. FRASER: The Act fixes the maximum amount that we can loan at 50 per cent, but as a matter of prudence, as a matter of practice, the Board lends only 40 per cent.

Hon. Mr. CALDER: But there is no limit on the amount you may loan to any one borrower?

Mr. FRASER: No.

Hon. Mr. McMeans: How do you find the plan works, if you accept repayment at any time?

Mr. Fraser: It has worked first rate.

Hon. Mr. McMeans: Have many loans come in?

Mr. Fraser: Yes, a great number. I remember one loan that we made in March, of $10,000, and in September the man came into my office and said he had had a splendid crop, and if we didn't want too big a bonus he would like to pay it off. He was very much surprised when I told him that we didn't ask any bonus, and he paid off the full amount the following October, and we had the money to return to the Provincial Treasurer.

Hon. Mr. McMeans: Would you prefer the present plan to a plan under which you could not pay off until after five years?

Mr. Fraser: I prefer our own plan. When a man has a crop with which to pay off his loan he should be permitted to pay it off, otherwise he is going to invest that money and he may not be able to get it back when required.

Hon. Mr. McMeans: But your Board will make no profit.

Mr. Fraser: No, but if there are others waiting for the money, we will get it out again.

Hon. Mr Willoughby: There is always plenty of demand?

Mr. Fraser: Yes. Of course we have maintained that when our volume becomes large and conditions become different we may require a small bonus if paid within the first five years; but no man should be refused permission to pay off, and if there is a bonus it should not be any greater than is necessary to cover the loss the Board is put to through having the money idle for a month or two.

Hon. Mr. Calder: You were connected with loan companies for a period of years?

Mr. Fraser: Yes.

Hon. Mr. Calder: What companies?

Mr. Fraser: The Western Canada Loan and Savings Company was the first, and when that was amalgamated with three others into what is now the Canada Permanent Mortgage Corporation, I was connected with that.

Hon. Mr. Calder: How many years were you in the loaning business before you took on the Saskatchewan Board?

Mr. Fraser: About 25 years.

Hon. Mr. Calder: You were 25 years in the ordinary straight loaning business, and something like 9 years operating under this system. Would you care to express an opinion as to the advantages of the scheme under which you are working compared with the work of the straight line companies?

Hon. W. B. Ross: In the interest of the farmer?

Hon. Mr. Calder: Yes.

Mr. Fraser: In the first place, the rate of course is much less. That is, the farmer who borrows from us has a low rate, and the actual instalment that he pays us is less than the interest at the lowest rate charged until within the last six or eight months. Shortly after we started a little money was loaned at 7 or 7½ per cent, but when it was realized that we were not going to have funds—you will remember that in 1917 there was an urgent demand for money for war purposes, and the Provincial Treasurer who had made his campaign to secure money for our purposes and had put on a heavy campaign of advertising was stopped by the Minister of Finance at Ottawa—and properly, of course—and the loan companies realized that we were not going to have the money to lend, and the 7 per cent money disappeared.

Hon. Mr. CALDER: Then you have a lower rate of interest?

Mr. FRASER: Yes, a lower rate of interest. Then there are the easier terms for the man who is hard pushed. That is to say, our instalment is less than the interest alone to the loan company.

Hon. Mr. DANDURAND: That is your interest, including amortization, is less than what they were paying for interest alone?

Mr. FRASER: Exactly. On a loan of $1,000 the instalment that will pay the principal and interest in 30 years is $76.58. The interest on the straight loan from the loan company is $80 a year at 8 per cent, and $90 a year at 9 per cent, and a great number have been renewed, some at 8½ per cent and some at 9 per cent. Most of them exacted a higher rate of interest when renewal came. I know a great many of those who wished to borrow from us wrote in asking for a loan, stating that their mortgage was maturing and that they were asked to renew at a higher rate—8½ per cent or 9 per cent.

Hon. Mr. CALDER: Is there any other advantage?

Mr. FRASER: I don't know, except of course that the most important thing, I think, is the freedom with which we allow them to pay off.

Hon. Mr. WILLOUGHBY: You pay no commissions for introducing loans?

Mr. FRASER: No.

Hon. Mr. WILLOUGHBY: How about the cost of foreclosure?

Mr. FRASER: It costs just as much as it costs any loan company.

Hon. Mr. BEIQUE: I suppose they feel safer with you than they do with the loan companies?

Mr. FRASER: I think they do.

Hon. Mr. CALDER: You do not press quite so hard?

Mr. FRASER: Of course we insist on payment. When we lend a man $5,000 we have to borrow it from the Provincial Treasurer, and undertake to pay interest.

Hon. Mr. CALDER: Have you in the last 9 years been nursing your farmers along to a greater extent than you were when operating for a loan company?

Mr. FRASER: No, I don't know that we have. A man who had a crop failure for five years in succession was, within my own knowledge, carried along by the company I was originally with. But that is not true of all loan companies. It was true of the old Western Canada Loan and Savings. That was in Manitoba.

Hon. Mr. MCMEANS: Do the priorities that come ahead of your mortgage affect the loan?

Mr. FRASER: The only thing that comes ahead of the mortgage on land would be the taxes.

Hon. Mr. MCMEANS: Are there no hospital bills?

Mr. FRASER: There are hospital bills.

Hon. Mr. LAIRD: Are there the same priorities in the case of your loans as in that of the private companies?

Mr. FRASER: Oh, yes. Seed grain is not a prior charge on the land, it is a prior charge on the crop. Threshing is a prior claim on the crop. When a man realizes on his crop in the fall he must pay his threshing and his seed grain. The seed grain advanced by the Dominion Government in the year 1917 affected the land and was a prior charge even over a mortgage made long before that.

Hon Mr. MCMEANS: What about seed grain advanced by the Provincial Government or a municipality?

Mr. FRASER: That is not a prior charge to the mortgage.

Hon. Mr. McMeans: Is it not charged up in the taxes and made a lien in that way?

Mr. Fraser: No, I don't think they charge the seed grain. They have the lien on the crop.

Hon. Mr. McMeans: I am speaking of municipalities that advanced grain under the authorization of the Government.

Hon. Mr. Calder: It is a lien on the crop in the first place, but if there is no crop it is a debt due to the municipality, and is put in the form of taxes and may be collected.

Mr. Fraser: I do not think seed grain—that is not true in Saskatchewan, is it, Mr. Willoughby?

Hon. Mr. Willoughby: I think not.

Hon. Mr. McMeans: Perhaps your municipalities do not advance seed grain?

Mr. Fraser: As a matter of fact, if a man requires seed, the Board prefers to furnish it itself and rarely refuses to advance a man seed grain if he requires it as a result of crop failure.

Hon. Mr. McMeans: Would that come under your mortgage?

Mr. Fraser: That would come under the mortgage.

Hon. Mr. McMeans: Have you rural credits as they have in Manitoba?

Mr. Fraser: Oh, no. Saskatchewan has no rural credit system similar to that of Manitoba.

Hon. Mr. Willoughby: Take the hospital bill in Alberta, where it takes precedence absolutely. Is the same true in Saskatchewan?

Mr. Fraser: I am not clear as to the hospital. They have the right to charge up hospital bills, and I am not clear——

Hon. Mr. Calder: Have you ever had a case in which you had to take care of hospitals?

Mr. Fraser: No.

Hon. Mr. Calder: Or seed grain?

Mr. Fraser: No.

Hon. Mr. Laird: Do charges for cutting weeds come before the mortgage?

Mr. Fraser: Yes.

Hon. Mr. Laird: That comes the same as taxes?

Mr. Fraser: Yes.

Hon. Mr. McMeans: I think you will find the hospital bill is charged against the municipality from which the patient comes.

Mr. Fraser: The seed grain financed by the municipality or by the Provincial Treasurer—we have on more than one occasion cut out through foreclosure —well, I am not sure—I know we have cut out seed grain by the municipality with our foreclosure. I do not think they got in.

The Hon. the Chairman: Who appoints your commissioner and other officials, and what are they? There are inspectors, directors, and everything?

Mr. Fraser: The Lieutenant Governor appointed myself and the other members of the board. There are three members of the board. Then, we have appointed all our own staff since that.

Hon. Mr. Calder: The other two members of the board are not on salary?

Mr. Fraser: Yes.

Hon. Mr. Calder: It must be a nominal salary.

Mr. FRASER: No. One lives in Saskatoon and one in Moose Jaw, and they have been averaging, I suppose, two days a week for some years now. We require two days a week for meetings.

Hon. Mr. DANDURAND: To pass upon the loans.

Mr. FRASER: To pass upon the loans and all the matters that come before them—seed grain and extension of time, foreclosure——

Hon. Mr. BEIQUE: Are they paid a salary?

Mr. FRASER: $2,500 a year each.

Hon. Mr. TANNER: Would the witness give an opinion as to whether the proposed Bill before the Committee has advantages or disadvantages as compared with the system he has been administering?

The Hon. the CHAIRMAN: Have you studied this Bill enough to be able to give that opinion to the Committee?

Mr. FRASER: Yes, I have given it quite a bit of study. It seems to be an advantageous Bill.

The Hon. the CHAIRMAN: Is not yours a better one?

Mr. FRASER: Ours is simpler, but we have to borrow our money from the Provincial Treasurer to run on with, and it is not very satisfactory, of course, to be piling up an accumulation of expenses from year to year in the early years.

Hon. W. B. ROSS: That is in provincial finance?

Mr. FRASER: Yes.

Hon. W. B. ROSS: It would be better to shift it to the Dominion?

Mr. FRASER: No. In our plan this board was established without a dollar of its own; nothing given to it at all.

Hon. Mr. CALDER: No power to issue bonds?

Mr. FRASER: There may have been a power, but we didn't issue bonds. The Government does the borrowing for us and advances us the money in the first place to pay expenses, and also advances us money to loan, and when a man gets a loan of $1,000 from us, it is $1,000 less expenses.

By Hon. Mr. Schaffner:

Q. If this Bill is accepted by Saskatchewan will your Board continue to function, or will it cease?—A. That would depend upon the authorities. Our Board may be appointed to carry on the work.

Q. For this Bill?—A. For this Bill, if the province and the authorities here agree upon that; with the addition that, I think, this calls for a larger Board than ours. We have only three. There would be an addition of two to our Board.

By Hon. Mr. Dandurand:

Q. Take off one. It was five, but we have reduced the membership here?—A. Four.

Hon. Mr. McMEANS: We have taken off one of the borrowers' members.

By Hon. Mr. Willoughby:

Q. I do not suppose, Mr. Fraser, that you have seen our Bill as we have modified it—A. No; I only saw it as it was in the House.

Q. I presume you saw the original Bill only?—A. Yes.

By Hon. Mr. Beique:

Q. You attach a great deal of importance to the raising of the amount loaned to make it as large as possible, so as to reduce the rate of expense?—A. Oh, yes; the larger the volume of money loaned out, the easier it will be to operate on 1½ per cent. In fact with $100.000.000 lent out there would be no difficulty, I think, perhaps in operating with a margin of less than 1 per cent.

By Hon. Mr. Calder:

Q. As a matter of fact, you have been hampered in recent years by small votes by the Legislature. The Legislature each year determines the amount to be advanced to you for loaning for that year. That is a process that takes place every year?—A. Every year.

Q. So that you are absolutely dependent upon the will of the Government and the will of the Legislature as to the extent of your loans?—A. Exactly, yes. Actually, although they have been advancing us half a million a year, that has to cover all our investments and our expenditures on behalf of our borrowers. If a man wants seed, that comes out of that half million; if he let his land be sold for taxes and we pay the taxes, that comes out of that half million.

Q. Last year how much had you for actual lending purposes out of your half million?—A. I suppose, between a quarter of a million and $300,000 last year; but the year before we had much less than that.

Q. So it took from $200,000 to $300,000 out of your half million to take care of your borrowers?—A. Yes, it does that usually. We advance hail premiums, for instance. In fact one source of revenue we have, that helps to make up for our small percentage, is that we advance the hail premiums for our borrowers who wish us to do so—if they placed the insurance through us—and we secure the commissions. The Board secures the commission of 15 per cent that is allowed on hail premiums. And we advance fire premiums for our borrowers who wish us to pay the premiums for them, and we charge those to mortgage account, and we secure from the fire companies a commission also. In the year 1922 and in the year 1923 we earned, I think, between $10,000 and $11,000 in that way. Last year and this year we have advanced the premiums —for any of the agents throughout the country who arrange to secure the hail insurance applications we will advance the premium on condition that he will give us one-third of the commission instead of the whole commission.

By Hon. Mr. Dandurand:

Q. But you are, from what I see, in partnership with Providence, and it represents the major interest. If Providence gives you good crops for three or four years you are on easy street.—A. Yes, if we have two or three years of good crops in succession, with decent prices. If we have good crops with poor prices we do not make much.

By Hon. W. B. Ross:

Q. Mr. Fraser, I understand from you that the Government has been able to borrow some money for you at $4\frac{1}{2}$.—A. Well, they have borrowed money for us at $4\frac{1}{2}$. I think they are still charging us $5\frac{1}{3}$ per cent.

Q. They are still charging you five and one-third?—A. They are charging us five and one-third. But the amount borrowed at $4\frac{1}{2}$ per cent is small so far.

Q. The only question I want to ask you about is: Do you know why the provincial government should not go on borrowing for you larger sums, or are you able to say anything about that?—A. Well, I say this, from 1920 on, our collections were very poor, that is, the farmers were not able to pay. Take the year 1921. It cost a tremendous lot to thresh the crops, and the price was low. There were farmers who spent every dollar that the crop was worth to pay the threshing, and then were not able to pay it, the threshing was so expensive that year. So they were not able to pay us. Our collections were poor, and there was nothing to encourage the Legislature to authorize us to expand. Even when we had fair crops the farmers were not dealing fairly with us; they were not paying us unless we actually forced them to do so. They preferred to pay other creditors, who were charging them a higher rate. Naturally they preferred that if we would permit them; but they did not ask our permission—they proceeded to pay out the money, and then let us know: "The money is gone.

What are you going to do?" We were not paying our interest to the province on the money that we had borrowed; that is, we were not paying it all. We were always behind until the year 1925. The year 1925 was the first time that we had actually paid up all the interest that we were owing to the Provincial Treasurer on the money borrowed from him.

By Hon. Mr. Beique:

Q. But before that?—A. Before that, they felt they should not go on rapidly, even if they could have got the money. And it was for that reason, I think, they lowered the rate. They found they could get perhaps a little more money at 5 per cent than they felt we ought to be asked to invst for them under conditions as they were.

Q. But to pay your interest to the Government you had to use the amortization receipts?—A. No, no—oh, no. Every dollar that we collect—if we collect taxes from a man—

Q. Yes, but what you collect is composed of interest and amortization?—A. Yes, exactly.

Q. And you use part of the capital to pay the interest to the Government?—A. Oh, no, not a dollar.

Q. All your amortization receipts have been re-invested?—A. The principal that we collect is paid to the Provincial Treasurer as principal; the taxes we collect are paid to him as taxes; the seed grain that we collect is paid to him as seed grain. It is only the interest that we collect that we pay to him as interest.

Q. That is satisfactory.—A. And when we had paid him all the interest that we were able to collect we were still owing him interest, until the year 1925. At the end of the year 1925 we paid him every dollar of interest that was owing from the Board, and we paid about $75,000 on account of administration expenses which is more than we have drawn from him since that; that is, than we shall draw for this year. We still get from him a cheque for $5,000 a month for administration expenses, and that will continue, I suppose, until we have caught up with the administration expenses by payments. And that means, when we collect we shall be able to pay.

By Hon. W. B. Ross:

Q. Then, as I understand you, the Government was conservative about borrowing money, on account of the results that you had?—A. Yes, they were conservative. And of course there is this also that should be mentioned: the bonds that the Provincial Treasurer has been selling to raise this money for us are 30-year bonds that are redeemable at any time on 90 days' notice.

By Hon. Mr. Gordon:

Q. At par?—A. At par. There is one set of bonds that are straight 30-year bonds. I do not know what is the amount, but that was a set sold, I think, a year ago, or perhaps a little more than a year ago, at 5 per cent; and that was sold at a small discount. But the regular bonds that were issued first, and for years, were all redeemable at the option of the holder at any time on 90 days' notice, with interest computed to the day they were paid.

By Hon. Mr. Calder:

Q. Are those bonds most sold locally, do you know?—A. They were sold altogether locally.

Q. Altogether locally?—A. Practically altogether locally. I think a demand came from one man down in South America and one man in the United States. Those came under my notice. But generally they were sold locally.

Q. Do you mean to say, Mr. Fraser, that the $10,000,000 you have handled over this period during which you have been lending out was practically all

raised locally by the sale of these bonds by the Government?—A. No, no. The first million, I think, came from the Minister of Finance, as I recall it—was advanced by the Minister of Finance.

Q. That was during the war period?—A. That was during the war, yes. That was our first million. That has perhaps been repaid. I think it was repaid long ago.

Q. That would be repaid by issuing these farm loan bonds?—A. Yes.

Q. And they were sold mostly locally?—A. Sold mostly locally, yes.

Q. Would you say 90 per cent of them were sold locally?—A. Oh, I should say 98 per cent of them—99 per cent perhaps.

By Hon. W. B. Ross:

Q. But I suppose all the local branches or agencies of the banks would take some?—A. No, I do not think the banks took any themselves. Some of their depositors, I know, asked the banks to buy the bonds for them, and they sent in their applications for the bonds. And then some of the local institutions have bought these bonds. Take the hail insurance: the Municipal Hail Insurance Commission, I think, bought in the year 1924, one good year they had, when they had a large surplus—I think they took about $300,000 of these bonds. And of course if they had heavy hail losses the next year they could get that money from the Provincial Treasurer, you see. That is, it was easier for them, and safer for them. They could get their money on demand at 90 days' notice.

By Hon. Mr. Dandurand:

Q. Mr. Fraser, are those bonds issued by the Government redeemable before the period mentioned, by a premium being paid, or at the option of the Government?—A. No, there are none redeemable at the option of the Government. They are simply redeemable at the option of the holder of the bond.

By Hon. Mr. Calder:

Q. Upon 90 days' notice?—A. Upon 90 days' notice.

Q. Without bonus?—A. Without any bonus, and with the interest paid to the end of the 90 days. The Provincial Treasurer pays interest right up to the day they pay the bond off. Of course it looks a risky business having a lot of that sort of thing, but as a matter of fact there are not very many of them being redeemed. That is, the holders like these bonds and they stay pretty steady.

Hon. Mr. BEIQUE: We are very much indebted to the witness, Mr. Fraser. He has given us valuable information.

The CHAIRMAN: The Committee appreciates very much the information you have given, which they value. Would it be well, if Mr. Fraser is here and has the time, to have him come back this afternoon?

Hon. Mr. LAIRD: I was going to suggest that.

The Committee adjourned until this afternoon.

OTTAWA, June 22, 1926.

The Committee met after the Senate sitting.

COLIN FRASER recalled.

The Hon. the CHAIRMAN: Now, Mr. Fraser, you came back to answer any questions the Committee might ask. One question occurred to me. Did the Government, when they created your organization, have any system of inspection of your company, or your acts? Did they verify anything, in the way a bank does when they open a branch and send people out to do business for them? Have they any supervision over you?—A. The Provincial Auditor is auditor of our books.

Q. And he goes to your branches, and wherever you are doing business, and verifies the books that you submit?—A. Yes, absolutely. He conducts an audit of the Board's books throughout the year.

By Hon. Mr. Belcourt:

Q. I thought the chairman went around and verified on the spot?—A. That is our loan inspectors; they examine every farm we make a loan on.

Q. And the auditor audits the main office?—A. Yes.

By Hon. Mr. McLennan:

Q. Have you any system of seeing that the money you lend is applied to the purposes for which it is borrowed?—A. We do not see it so applied, but we have the statement that it is to be so applied beforehand, and ordinarily it is disbursed in about that way. If it is to pay off a mortgage it is our solicitor that pays it off. Anything that is to be cleared off the title is cleared off by our solicitor; we do not advance such money direct to the borrower.

Q. Are you audited by Mr. Finlayson's department?—A. No.

Mr. Finlayson: I want to make it clear that we do not do anything at all in regard to companies operating under provincial charters. That is left to the Provincial Governments to arrange.

By Hon. W. B. Ross:

Q. Mr. Fraser, do I understand that you found 1 per cent sufficient to pay the cost of management of your business?—A. No; we have had 1½ per cent clear after paying the Provincial Treasurer for the money. One and a half per cent is the spread between what the money costs and what we lend, and we pay one-third of 1 per cent to the Provincial Treasurer.

Q. What percentage do you find sufficient to pay the cost of management?—A. Well, I imagine that 1 per cent now would cover the management, with the volume of business that we have.

Q. You said that if you had business of $100,000,000, or $50,000,000, that the cost would necessarily be less?—A. Yes, I think with $100,000,000 business the actual management cost, that is the office expenses, would be nearly cut in half.

By Hon. Mr. McLennan:

Q. Does 1½ per cent cover losses?—A. That covers all expenses and losses.

By Mr. Hughes:

Q. It would be half if you were doing $100,000,000 of business?—A. I think so.

Q. Including losses?—A. No.

Q. Have you been in business long enough to estimate what the losses would be?—A. We have made losses, but we have made more gains than losses. We are ahead so far, but still we have some properties on hand that we have not been able to dispose of, but we have a pretty fair surplus, nearly $300,000.

By Hon. Mr. Turriff:

Q. Those properties that you have not been able to dispose of, are they not the most likely ones to make a final loss?—A. There are a few of those that we will make losses on, but there are a lot of those that are not saleable at present at the figures we think we should get for them, and they are giving us a revenue, so we are not worrying unduly about them.

By Hon. Mr. Calder:

Q. What shape is your reserve fund in?—A. It is on paper.

Q. Have you got the cash?—A. Oh, no, we have not the cash to pay the Provincial Treasurer all that we owe him yet.

By Hon. Mr. Belcourt:

Q. How much did you get from the Provincial Treasurer in the first instance?—A. We have got nothing from him except advances periodically to pay expenses. He is advancing us for the last two or three years now, $5,000 a month for administration expenses.

Q. Is that repayable?—A. Oh, yes, we have already paid back between $70,000 and $75,000 of the moneys advanced to us during the nine years.

The CHAIRMAN: Thank you very much, Mr. Fraser. The Committee appreciate your services.

JOHN APPLETON, Toronto, Secretary of the Dominion Mortgage and Investments Association, was called.

By the Chairman:

Q. Have you any statement to put before the Committee?—A. Mr. Chairman, Mr. Rowell, unfortunately now indisposed, desired that particular attention should be drawn to a memorandum which Mr. Smith, who is the President of our Association, prepared. It has reference to the expense ratio of the Federal Land Banks of the United States. A statement has been published, indicating that the expenses of the United States Credit Land Banks approximate about .45 per cent, and it is quite clear upon investigation that that expense ratio only corresponds to the head office expense of the Canadian lending institutions. The real cost of lending in the United States under the Federal Farm Loan System is borne by what is known as the National Farm Loan Associations. These associations not only secure loans, but they also guarantee that the payments under mortgages taken will be made, and if trouble arises the secretary and directors of the association are particularly advised by the Federal Land banks to personally attend to those defaults. So that the big expenses which the Canadian lending institutions are put to in looking after the collections—the corresponding expenses in the United States—are borne by the National Farm Loan Associations, whose principal function is in practically guaranteeing the payments due to the Land Banks. As there are approximately 4,600 of those National Farm Loan Associations, with an original guaranteed capital of $50,000,000 and an additional liability of another $50,000,000, definitely secured against the mortgaged lands. That guarantee is a substantial one; and members of the Farm Loan Associations, in order to protect themselves, take an active interest in seeing that collections are made. For that reason we think that the expense ratio as given you, and as published, does not correspond to the expense ratio such as was laid before the Committee by Mr. Rundle and by Mr. Smith. One other matter to which I would draw attention is with respect to foreclosures under the Federal Land Bank. The Handbook issued by one of the Federal Land Banks to the National Farm Loan Associations within its jurisdiction instructs those associations, in case of default, to take foreclosure only for the payment in default, and proceedings are taken accordingly. Therefore the foreclosures reported by the Federal Land Banks, as a whole, do not represent all the loans actually in default. In the case of Canadian companies, if foreclosure proceedings are taken the entire amount is regarded as being in default. In the United States only the payment that has matured is regarded as in default, and the Farm Loan Board statement is obviously based on that method, which does not correspond with that of the Canadian companies. The claims of the Federal Land Banks in case payments are in default, are subrogated to the National Farm Loan Associations, because the latter are responsible for all the payments.

By Hon. Mr. Turriff:

Q. Who pays the National Farm Loan Associations for guaranteeing the advances?—A. They have a capital of 5 per cent of the amount of loans negotiated by the association, and in addition they have another liability of 5 per cent.

Q. Who does that money come out of, eventually?—A. The borrower.

By Hon. Mr. Willoughby:

Q. The only reason the American system would operate cheaper than here is because the security is better?—A. In some parts of the United States only. We have been unable to get any reliable figures as to the operations of the National Farm Loan Associations. There are 4,600 of them, and they are only casually mentioned in the reports of the Federal Farm Loan Board. We know, however, that the condition of those associations is giving the Secretary of the Treasury of the United States concern.

Q. I think they seem to be very flourishing, judging from the last report of the Bureau of Agriculture in 1924?—A. If you look into the reports of the Secretary to the Treasury you will find that they are anxious as to the condition of those associations. You cannot arrive at any satisfactory conclusion as to their condition; that is my opinion after looking into this matter for some years. In each Federal Land Bank district there may be a large number of those associations, I presume according to the density of the population. Another matter I wish to mention is with respect to a statement made by Mr. Fraser this morning as to renewal of loans in the United States at a certain period, that when an application for them was made 8½ per cent and 9 per cent was demanded by the existing lending institutions.

By the Chairman:

Q. He did not say in the United States?—A. In Saskatchewan. Well, the United States is so big in the lending business that it is hard to comprehend it, but the fact is that the large preponderence of lending institutions in Saskatchewan have a definite rule that they will not lend in excess of 8 per cent. The Credit Foncier, which is our largest lending institution, incorporated in Quebec, is prohibited by its own act of incorporation, and on its own initiative, from lending in excess of 8 per cent. The reason for such a provision is obvious—that if any company lends at a higher rate, its standing is prejudiced, as companies which lend at above 8 per cent are regarded in many important quarters as being in a very hazardous business. Some of our trust companies doing business in Canada were among the most extensive lenders among the farmers in the West a few years ago. Now their operations have been very materially contracted, because they are not able, even on an 8 per cent basis, to bring money from England and lend it so as to net satisfactory returns, therefore their operations are reduced now to merely collecting what is outstanding.

By Hon. Mr. McMeans:

Q. But that was on account of the conditions during the war; I know lots of companies that would collect all the money they could and send it over to England for the sake of the exchange?—A. That was true of one or two mortgage companies, but I am referring to those companies which encourage investment of capital in the Canadian West on the part of the larger insurance companies in England, and of other fiduciary organizations. Now they have practically discontinued doing that, because it has been found to be unprofitable to lend at 8 per cent and leave any margin as profit and for the cost of operation. The net results to those who did invest it were not better than if they had bought Dominion Government securities.

By Hon. Mr. Hughes:

Q. When you mention 8 per cent as the maximum rate of interest on mortgages in the West, are you speaking for your own company or for all the loan companies in the West?—A. I might explain that the Dominion Mortgage & Investments Association represents 60 or 70 of the lending institutions—life companies, trust companies and loan companies—and I am speaking of the large preponderence of companies lending in Saskatchewan. Our largest individual loan company is the Credit Foncier, a Quebec corporation. The next, possibly, is the Canada Life, which I know does not lend in excess of 8 per cent. The Trust and Loan Company, one of the older companies, does not exceed 8 per cent.

Q. But Mr. Fraser's evidence was as to renewals?—A. In the case of renewals the same rule would apply.

Q. It does apply, to your knowledge?—A. Yes.

Hon. Mr. CALDER: I think Mr. Fraser's statement referred to something that was happening years ago, rather than in recent years.

Mr. COLIN FRASER: It referred to the last three years. I have knowledge of that from the letters the farmers write me, but of course it is only those who are asked to do that who would write to that effect. There may have been hundreds who renewed at 8 per cent who would not write to me about it. There were quite a number of such cases, but not many institutions were mentioned in those letters. They were loan companies, not trust companies or life companies.

Mr. APPLETON: I may say that the loan company itself is a gradually diminishing factor in farm mortgage lending in the West, because the cost of getting money to lend out, and the results from it, are not promising, as the loan company has to borrow money and re-lend it. The trust company and insurance company have a large volume of trust funds, and can possibly do better, on the whole, than the loan company.

By Hon. Mr. Willoughby:

Q. I know cases where, on the renewal of a loan, the company has charged a fee for drawing the renewal papers, running from $3 to $12, and charged for new inspection at the end of five years?—A. That may be in individual cases, but the companies have been making an effort to eliminate a good many charges of that kind because of the dissatisfaction caused by them. The loan companies were parties to the establishment in Saskatchewan of what is known as "The Kickers' Department." The companies agreed that they would put all their cards on the table in respect to any loan. Mr. Oliver is the officer in charge, and we leave it to his discretion whether an action was fair or reasonable. In his last report you will find, in every case, a fair adjustment has been made, and we have been satisfied with his administration of that office.

Q. That was, as to whether the charges were really fair?—A. Yes. Mr. Fraser stated this morning that he could lend $100,000,000 in the West. That is quite true; to lend that amount in the West at any time is an easy matter, and our companies have a very large amount of money they would like to get out if satisfactory security was forthcoming, but the experience of 25 years has cost them dearly. Money can always be lent, but satisfactory borrowers are shy. It is easy to lend, but difficult to get the money back.

By Hon. Mr. Belcourt:

Q. Can you give us the total figure of money lent on mortgages in Saskatchewan?—A. The amount mentioned by Mr. Fraser is in accordance with our own estimate—about $100,000,000 on farm mortgages; about nine or ten millions of that by Mr. Fraser's company, and our companies about eighty millions.

Q. Then there are ten millions by private individuals?—A. Yes, that is about the proportion.

By Hon. Mr. McMeans:

Q. Do your companies confine their loans to certain districts? If application is made from a certain district do you say, "We do not like to take a loan in that district, because it costs us more money for inspection?"—A. Yes, that is a practice followed by most institutions.

By Hon. Mr. Belcourt:

Q. Speaking of your loan companies, are your loans decreasing rather than increasing?—A. Yes.

Q. You are lending less to-day than you were in the past?—A. Yes. The amount outstanding, due to the loan companies, is about steady. The amount outstanding to the trust and insurance companies has increased.

Q. Would you not conclude from that that a measure of this sort would really meet the requirements out there?—A. I indicated that we had a very large amount of money available for loan in Saskatchewan. Very large sums are available if the security is available.

Q. Then why is it you are not putting it out?—A. Because so many applications that are being made to us at present are not satisfactory, that is, the security is not satisfactory.

Q. Is that because of those priority claims?—A. In Saskatchewan the priority claim is not as big a factor as it is in Alberta. It is just a matter of security.

Q. You are loaning in the same way as this company, or any other, that is, 50 per cent or less?—A. Yes.

Q. You do not exced 50 per cent?—A. If a man is particularly good and his farm is in a particularly good condition, and he has a particularly good reputation I think we would go above 50 per cent.

Q. Why is the security out there less valuable than special security, since you do not lend any more than 50 per cent?—A. Sixty per cent is the statutory limit to which insurance companies can lend.

Q. I understand that you are rather decreasing your loans out there, because you say the security is not satisfactory?—A. No; the amount of money available is very large ,and we are looking for loans in Saskatchewan.

Q. Why do you not take them?—A. We do except when the security is not satisfactory.

Q. In what way?—A. In a very large number of cases the borrower is already sufficiently in debt.

Q. Or the land is situated in a district that is liable to be dry?—A. Exactly.

Q. The reason is this, that you are not prepared to make long-term loans, and that is what the people out there want; is not that the reason you are decreasing your business?—A. I think the companies are quite prepared to make long-term loans. Our largest company is the Credit Foncier system in France. It came out West about 1890, and all its books and forms were designed for the long-term system.

By Hon. Mr. Calder:

Q. It has been reported to me that where a man is in default the companies increase the rate of interest on his default; supposing the mortgage carries 8 per cent, and he is in default $200 on the principal or interest, as soon as he is in default the rate is jumped up above 8 per cent?—A. I do not think that is correct. I think at present if he is only $200 in default we would consider ourselves very lucky.

Q. Suppose it is $1,000?—A. It is quite common, if a man has been attending to his loan, and has had two or three years' bad luck, for the company to carry him.

Q. Do you know if the company increases the interest to 8½ or 9 per cent? —A. If it did the borrower, if a satisfactory one, would not have the slighest difficulty in going to another company and getting all the money he wanted.

Q. They do not do it?—A. No.

The Hon. the CHAIRMAN: Thank you, Mr. Appleton. Now, is there any other witnesses who want to be heard in connection with this inquiry? (No response).

Mr. FINLAYSON: If you refer to the remarks made by the honourable leader of the Senate on the second reading of the Bill you will find that attention is drawn to those expenses. There is, for instance, a fee of 1 per cent of the amount of the loan at the time it is made; there are transfer fees, not exceeding $10; partial release fees, $2.50; and so on. All these revenues come into the funds of the local associations and are used for their expenses. Now, it is practically impossible from the annual statements of the Land Banks to say what is the total expense, inclusive of the expenses of these local associations. It merely goes to shew the wisdom, I think, of the amendment that has been made in striking out the 1 per cent limitation in this Bill and leaving it to the discretion of the Board as to what the probable expense of operation will be. Probably the first duty of the Farm Loan Commissioner will be to go down to some of these banks and thoroughly investigate the expenses, not only of the banks but also of the local associations.

The CHAIRMAN: I understand that some members of the Committee desired an explanation from Senator Beique with regard to his amendment.

Hon. Mr. McMEANS: Yes, I would like to hear it.

Hon. Mr. BEIQUE: Honourable gentlemen, I desire to say at the outset that I am a great believer in the farm industry. It is our main industry in this country and we cannot do too much for it. I hope that this Bill will prove to be very useful to farmers, and I have thought it my duty, as well as the duty of other members, to try to improve the Bill as much as possible. From the evidence that we have had it is perfectly clear that the rate of expense of administration is quite different in the western provinces from what it is in the eastern provinces. The risk is also quite different. I believe further that those differences are exaggerated and that unless the Bill is amended as we have amended it, we shall have no hope of enlisting the eastern provinces. I am speaking mainly of the province of Ontario and the province of Quebec. I think that we have also the evidence that the larger the loans the smaller will be the rate of expense of administration.

Hon. Mr. DANDURAND: The greater the volume.

Hon. Mr. BEIQUE: Yes, the greater the volume; and that therefore we should try to enlist all the provinces as much as possible in this scheme. That was the only purpose of my amendment, and I think it is important that each province should be made to feel that they are not expected to carry the load of any other province. The Bill as it came to us was prepared with that in view, because the Bill provided for a Board in each province, which Board is to be the agent of the Federal Board. We have the proper organization, so that the result of the loans in each province—the amount of the losses and the amount of the profits—will be ascertained.

The other reason for my amendment was to give much more leeway to the Federal Board in deciding as to whether the rate of interest should be the same in each province or different. They can adopt either of those courses. If the

interest is made the same in the eastern provinces as in the western, and if the losses or the costs of administration are smaller, then the dividends on the capital will be larger.

Those are the reasons which prompted me to suggest the amendment which I propose, and which reads:—

> "Notwithstanding anything contained in the Act the operation of the Board in virtue thereof shall be conducted in such a manner as to give as far as possible to the shareholders in each province the full benefit of the operations in such province."

Hon. Mr. McMeans: Would that affect the rate of interest on the mortgage?

Hon. Mr. Beique: No.

Mr. Finlayson: Not at the outset anyway.

Hon. Mr. McMeans: That is, the rate of interest on the mortgage would be the same in all the provinces?

Hon. Mr. Beique: It may be the same, or it may be different. It will be as the Board deem advisable. If in order to enlist the co-operation of the province of Ontario or the province of Quebec it is found necessary to make the rate lower in those provinces, the Board may decide to do so; but the other provinces will not suffer by that at all. You see, in Ontario they are lending at 5½ per cent. We have received a letter from the Provincial Treasurer saying that they were not interested at all. That conveyed to us a clear decision that they would not come into the scheme. Therefore I thought it important to have the organization so changed as to get them to revise their decision and enlist their co-operation.

Hon. Mr. Dandurand: I would like to have the view of Mr. Finlayson on the operation of this clause.

Mr. Finlayson: Honourable gentlemen. I have already expressed my opinion as to this amendment at the previous meeting. I think it improves the Bill. My understanding of the amendment is not that it will be used, or even can be used. to discriminate in the matter of interest rates at the outset of the scheme Subsection 1 of the amendment says: that the operations of the Board "shall be conducted in such a manner as to give as fully as practicable to the shareholders in each provinces the full benefit of the operations in such province." Now, the operations in any province surely cannot be ascertained until the Bank has operated in that province.

Hon. Mr. Calder: Just one moment, Mr. Finlayson. Prior to that you go to the province of Ontario and you say: "We want you to come in." The province of Ontario says to your Board: "What interest are you going to charge?"

Mr. Finlayson: I think the answer of the Board has to be: "We will charge the same rate of interest to Ontario as we charge to every other province that comes into the scheme."

Hon. Mr. Calder: What is Ontario going to say?

Mr. Finlayson: Then Ontario will say: "Well, is there any way by which we can get the benefit of our own experience?" We will say: "Yes, in part at least, by reason of the operation of the dividends which will be declared on the stock in the province." I tried to illustrate that the other evening when this amendment was up for discussion, and I showed that merely by reason of the operation of the dividends in this bank, if the experience is anything like the experience in the United States, there can be a spread in the net interest rate payable by the borrowers in the various provinces of over one per cent.

Hon. Mr. WILLOUGHBY: How about the cost of administration? How about equality or inequality?

Mr. FINLAYSON: If there is a difference in the cost of administration, as the result of experience, there may be some way found of charging the higher rate of expense in a particular province to the borrowers in that province.

When the suggestion was first made that something like this should be worked out, I had tried to work out a clause dealing simply with the question of dividends. I realize that the clause is perhaps better left in general terms, because there may be some way found of dealing with operating expenses and other elements of the cost. I had discussed this matter, I may say, with a number of people very much interested in this scheme in the western provinces, including Dr. Tory, when this Bill was under discussion, and Dr. Tory had something of the very same kind in his mind. The only difference was that he was trying to deal with it by way of reserves instead of actual losses sustained, and he was leaving the matter of additional dividends to the discretion of the Provincial Board, not the Federal Board. I did not agree with that. I think the question of dividends in a scheme must be a matter for the discretion of the Federal Board, and it must not be, I think, in the way of provision by reserves, because reserves are provision made against anticipated losses.

Now, I do not think we should allow our ideas as to what losses are going to be sustained in any province to affect our judgment as to cost. I think we ought to deal only with losses actually sustained, and that is implied in this amendment, because we say that they are going to get the benefit of the operations of the Board in that province. I can see a very great advantage in this, because, for one thing, it will give the proper incentive to the provinces to make good records in order that the net cost of the loans in the province may be reduced, and if we can get one province to compete with another province for the purpose of reducing the net cost of the money, I think we have the greatest possible incentive and reason for the success of the scheme.

Hon. Mr. CALDER: In theory, Mr. Finlayson, I think you are right, but you have to look at the thing in a practical way. Take the province of Ontario. The people get their money at 5 or 5½ per cent. I think we will all admit that as far as the West is concerned money cannot be loaned at less than 6½ per cent; but if you go to the farmer in the province of Ontario and say that you will have to charge him the same rate of interest as you charge in Saskatchewan, what is he going to say?

Mr. FINLAYSON: I will take the illustration I gave the other evening. Suppose our interest rate is 6½ per cent. Supposing there can be dividends declared on the United States scale. If there are no losses to be charged against those dividends, what does that mean? The borrower over the thirty years of his loan will be getting a net rate of about 5¾ per cent in that province. If on the other hand, in some other province all those dividends are absorbed by losses actually sustained, the borrower will get no dividends, and he will be paying a net rate of interest of 6.84 per cent, because he is paying his nominal 6½ per cent on $1,000 on an actual loan of $950. You have in the province which is making the losses a net rate of 6.84, and in the province in which there are no losses a net rate of about 5.75.

It is quite true that even in Ontario that would not appeal to the farmer who is now getting his loan at 5½ per cent. That again raises the question as to whether the system in Ontario is a permanent system. They are using saving bank deposits as the basis of their farm loan scheme. I have heard no expression of opinion in favour of the permanence of that scheme. No one has said that he would advocate making long term farm loans indefinitely—twenty and thirty-year loans—on the basis of money obtained from the savings banks. That is a question that we have to bear in mind in considering whether the province of Ontario might be attracted into this scheme.

Right Hon. Sir George E. Foster: Your inference is, if they see the point, that the saving bank deposits are an insecure basis and that they will not continue on that, and must then go to a source of supply which will cost them more?

Mr. Finlayson: Quite.

Right Hon. Sir George E. Foster: And then of course the interest rate goes up.

Mr. Finlayson: The province of Ontario may be very glad to go into this scheme upon such considerations as I have mentioned in connection with Saskatchewan and Manitoba, and practically for the same reason, that the system on which they are operating is not a system which can be continued indefinitely, and that it is liable to break down the moment there is a run on the Provincial Savings Bank.

Hon. Mr. Belcourt: So far you have spoken only with regard to interest. What about losses? For instance, let us say that in Ontario the losses would be 1 per cent, that in other provinces it might be only one-half of that. How would you reconcile the matter with regard to losses?

Mr. Finlayson: Coming to that, the dividend is struck. It is found, however, that there have been losses actually sustained on the foreclosure of property and re-sale. The dividends accruing to the borrowers in that province, and the province itself, can be charged with the losses in that province. Now, the borrowers and the province are getting the benefit of the operations in that province, but on the other hand, the province which has sustained no losses gets the full dividend.

Right Hon. Sir George E. Foster: Your hard sledding will be in the first five years when you have none of these compensating advantages.

Mr. Finlayson: Yes, but I think that will be taken care of by the freedom from interest on the initial capital provided. I think that will very largely meet the costs of organization and establishment.

Hon. Mr. Dandurand: Mr. Finlayson has discovered a flaw which he would like to amend.

Mr. Finlayson: I would like to have one little change made in the amendment adopted Friday evening. It is in subsection 2 of section 5 of the Bill. We made a change there regarding the 15 per cent capital stock. It is a change in wording, to make it clear that 15 per cent would apply to the total loans from time to time outstanding. The trouble is that that would not completely summarize the three elements of that capital, one by the Dominion, one by the province, and one by the borrowers, because we want to make the capital of the Dominion and of the province at all times each 5 per cent of the total principal on the loans from time to time outstanding. But in the case of the borrower we want his capital to remain while the loan is on the books. I would suggest that we strike out the reference to 15 per cent in the first part of subsection 2, and make it read:—

> In addition to the initial capital provided for in the preceding subsection, the Board shall issue capital stock in shares of $1 each, which shares shall be nontransferable, except at the option of the Board, and shall be subscribed for in the following manner.

Then we deal with the 5 per cent of the Dominion, the 5 per cent of the Province, and the 5 per cent of the borrower.

The proposed amendment was agreed to.

The title was agreed to.

SENATE REPRINT, 24TH JUNE, 1926

148.

First Session, Fifteenth Parliament, 16-17 George V, 1926

THE HOUSE OF COMMONS OF CANADA

BILL 148.

An Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for Farmers.

Reprinted with the Amendments, as reported on 23rd June, by the Banking Committee to which the Bill was referred, and as further Amended and Concurred in by the Senate on 24th June, 1926.

OTTAWA
F. A. ACLAND
PRINTER TO THE KING'S MOST EXCELLENT MAJESTY
1926

1st Session, 15th Parliament, 16-17 George V, 1926

THE HOUSE OF COMMONS OF CANADA.

BILL 148.

An Act for the purpose of establishing in Canada a system of Long Term Mortgage Credit for Farmers.

HIS Majesty by and with the advice and consent of the Senate and House of Commons of Canada, enacts as follows:—

Short title.

1. This Act may be cited as *"The Canadian Farm Loan Act, 1926."*

2. In this Act, unless the context otherwise requires,

"Board."

(a) "Board" means the Canadian Farm Loan Board established by this Act;

"Borrower."

(b) "Borrower" means a farmer who has obtained a loan under the provisions of this Act;

"Commissioner."

(c) "Commissioner" means the Canadian Farm Loan Commissioner appointed under the provisions of this Act;

"Farmer."

(d) "Farmer" means any person whose business is that of farming and who owns and occupies a farm, or who proposes to acquire a farm for immediate occupation and cultivation by him;

"Farming."

(e) "Farming" includes stock raising, dairying and the tillage of the soil;

"Farm Land."

(f) "Farm Land" or "Farm" means land under occupation and cultivation by a farmer or land purchased by a farmer for immediate occupation and cultivation by him;

"Farm Loan." "Loan."

(g) "Farm Loan" or "Loan" means a loan made to a farmer under the provisions of this Act;

"Farm Loan bond."

(h) "Farm Loan bond" means a bond issued under the authority of this Act;

"Minister."

(i) "Minister" means the Minister of Finance for the time being.

Canadian Farm Loan Board.

3. (1) There shall be a board, known as the Canadian Farm Loan Board, which shall be a body politic and cor-

Notes.

Amendments made by the insertion of new matter are shown by black lines.

Amendments made by leaving out words are indicated by notes on opposite page.

Chairman.
Farm Loan Commissioner.
Tenure of office.

porate and shall consist of four members, one of whom shall be the minister who shall be chairman thereof, and the other three of whom shall be appointed by the Governor in Council on such terms and conditions as the Governor in Council may prescribe. One of the members so appointed shall be designated the "Canadian Farm Loan Commissioner," and shall be the chief executive officer of the Board. The Commissioner shall be appointed for such a period of years as the Governor in Council may designate. The other members of the Board shall be appointed in the first instance one for a period of three years and the other for a period of six years; thereafter appointment of members other than the Commissioner shall be for a period of six years. Any member of the Board shall be eligible for reappointment.

Compensation.

(2) The Commissioner shall be paid such salary and the other members such fees as the Governor in Council may prescribe, such salary and fees to be a charge against the revenues of the Board.

Power of Board.

4. (1) The Board shall have power:—

Farm Loan bonds.

(*a*) To issue and sell bonds to be known as Canadian Farm Loan bonds, to buy the same on its own account and to retire the same at or before maturity;

Long term loans.

(*b*) To make long term loans to farmers on the security of first mortgages on farm lands upon and subject to the conditions hereinafter prescribed;

Real estate.

(*c*) To hold real estate which, having been mortgaged to it, is acquired by it for the protection of any loan, and to sell, mortgage, lease or otherwise dispose thereof: provided, however, that any such real estate shall be disposed of within three years from the date on which it is acquired, or within such additional period not exceeding two years as the Governor in Council may fix and determine;

Investments.

(*d*) To invest its funds in the debentures, bonds, stocks or other securities of, or guaranteed by, the government of Canada, or of, or guaranteed by, the government of any province of Canada;

Assistants.
Incidental powers.

(*e*) To employ such assistance and to exercise by itself or through its duly authorized agents all such incidental powers as shall be necessary or expedient to carry on the business authorized by this Act.

Capital requirements.

5. The capital requirements of the Board shall be provided as follows:—

Initial capital.

(1) The Government of Canada may subscribe to an initial capital to an amount not exceeding five million dollars and may pay the amount of any such subscription at such times and in such amounts as in the judgment of the Board are necessary for the purposes of the Board. The amounts

5. (1) This originally read: –

"The Government of Canada shall provide an initial capital to an amount not exceeding five million dollars to be paid to the Board in such amounts and at such times as the Board may determine."

provided from time to time under this subsection shall be free from interest charges for a period of three years, after which time interest shall be paid at the rate of five per cent per annum. Repayment of the amounts so provided shall be made from time to time out of the earnings of the Board; provided, however, that before any such proposed repayment is made the reserve fund of the Board provided for by section nine of this Act, shall be at least equal to the total repayments including the repayment then proposed to be made.

Capital stock.

(2) In addition to the initial capital provided for in the preceding subsection, the Board shall issue capital stock in shares of one dollar each, which shares shall be non-transferable except at the option of the Board and shall be subscribed for in the following manner:—

Five per cent of loans subscribed by Government of Canada.

(a) The government of Canada shall subscribe for the said capital stock from time to time as loans are made under this Act to an amount equal to five per cent of the said loans, so that the total amount subscribed under this paragraph shall equal at any time as nearly as may be, five per cent of the total amount of principal outstanding on loans theretofore made, the same to be called for by the Board as required;

Five per cent of loans subscribed by provinces.

(b) Each province of Canada in which loans are made shall be required to subscribe for the said capital stock from time to time as loans are made under this Act in the province to an amount equal to five per cent of the said loans, so that the total amount subscribed under this paragraph shall equal at any time, as nearly as may be, five per cent of the total amount of principal outstanding on loans theretofore made in the province, the same to be called for by the Board as required.

Five per cent of loan subscribed by borrower.

(c) Each borrower under this Act shall subscribe for the said capital stock to an amount equal to five per cent of the sum borrowed by him which stock shall be paid for at the time the loan is made.

Limit of outstanding farm loan bonds.

6. (1) The outstanding Farm Loan bonds shall not exceed at any time twenty times the paid-up capital stock subscribed for by the borrowers in the manner provided in the next preceding section.

Rate of interest.

(2) Such bonds shall be issued at such a rate of interest as in the opinion of the Board will make the market value of the bonds at the date of issue approximately par.

Time limit. Denominations. Redemption before date due.

(3) The bonds shall be issued for such period, not exceeding thirty-five years, and in such denominations as the Board may determine. Provision may be made for the redemption of the bonds at the option of the Board before their due date, in which case the Board may provide for the payment of such premium as it may deem reasonable.

The only change is the substitution of "paid" for "charged".

Paragraph (2) originally read as follows:—

"In addition to the initial capital provided for in the preceding subsection, the Board shall issue capital stock in shares of one dollar each, which capital stock shall at all times equal, as nearly as may be fifteen per cent of the total farm loans theretofore made and not fully repaid. The said shares shall be non-transferable and shall be subscribed for in the following manner:—"

(a) After "loans theretofore made" the words "and not fully repaid" have been struck out.

(b) After "loans theretofore made in the province" the words "and not fully repaid" have been struck out.

Form.

(4) Each Farm Loan bond shall be signed by the Commissioner, or by a member specially authorized thereunto by the Board, and by the secretary or treasurer of the Board. It shall have printed thereon a certificate by the Commissioner that it is issued under the authority of this Act and that at the time of issue the Board holds first mortgages on farm lands at least equal to the total amount of bonds issued under this Act.

Conditions for loans.

7. Loans made under the authority of this Act shall be subject to the following conditions:—

First mortgages.

(1) Loans shall be made only on the security of first mortgages on farm lands up to fifty per cent of the Board's appraised value of such lands and twenty per cent of the permanent insured improvements thereon; provided, however, that no one person and no two or more persons having joint or several ownership of the land to be mortgaged shall have by way of loan in the aggregate at any one time more than ten thousand dollars. Mortgages taken as security for farm loans and remedies thereunder shall be in all respects subject to the law of the province in which the farm land mortgaged is situated.

Use of proceeds.

(2) The proceeds of such loan shall be used for the following purposes and no other,—

(a) To purchase farm land;

(b) To purchase fertilizers, seed, live-stock, tools, machinery and any implements and equipment necessary to the proper operation of the farm mortgaged;

(c) To erect farm buildings or to clear, drain, fence or make any other permanent improvement tending to increase the productive value of the land;

(d) To discharge liabilities already accumulated;

(e) Any purpose which in the judgment of the Board may be reasonably considered as improving the value of the land for agricultural purposes.

Loans only to persons engaged in cultivation of farm mortgaged.

(3) Loans under this Act shall be made only to farmers actually engaged in or shortly to become engaged in the cultivation of the farm mortgaged and whose experience, ability and character are such as to warrant the belief that the farm to be mortgaged will be successfully cultivated. Provided, however, that no loan shall be made on the security of unimproved land except for the purpose of making improvements on the same.

Appraisal value.

(4) The appraised value shall be based on the value of the land for agricultural purposes and as far as possible on the productive value as shown by experience. No other basis of valuation shall be considered.

Interest.

(5) The interest rate on loans under this Act shall be such a rate in excess of the interest rate yielded at the time of issue by the last series of Farm Loan bonds issued by the

Board as shall be sufficient, in the judgment of the Board, to provide for the expenses of operation and for the necessary reserves for losses, or if no such bonds have been issued, such a rate as in the judgment of the Board will be yielded by the Farm Loan bonds when issued, increased by provision for expenses and reserves as aforesaid.

Repayment.

(6) Every farm loan shall be repayable in equal annual or semi-annual instalments of principal and interest at the option of the borrower. The amount of such instalment or instalments payable in any year shall be a fixed percentage of the amount of the loan, such percentage to be the rate of interest mentioned in the mortgage increased by either one per cent or two per cent of the amount of the loan as the borrower may elect.

Interest on defaulted payments.

R.S., 1906, ch. 120.

(7) Notwithstanding anything contained in the *Interest Act* every borrower shall pay simple interest on defaulted payments at a rate not exceeding eight per cent per annum and shall agree to pay when due all assessments, taxes and other charges necessary to be paid for the security of the Board in respect of the loan, and to effect such insurance as the Board may require. Should such taxes, assessments and charges not be paid when due, they may be paid by the Board and charged to the borrower, and if not repaid to the Board on or before the next interest date with interest thereon at a rate not exceeding eight per cent per annum the borrower shall be considered in default under the mortgage.

Payments by borrower.

(8) Notwithstanding anything in this Act, but subject to such regulations as the Board may prescribe not inconsistent with the provisions of the *Interest Act*, any borrower may at any time repay the whole or any part thereof on any date on which an instalment becomes due, and any such payment shall be credited to the borrower in such manner as the Board may by regulation prescribe as hereinafter provided, but no such payment shall relieve the borrower from meeting all subsequent payments punctually as they fall due.

If loan expended for other purposes.

(9) If any borrower under this Act expends any part of a loan for any purpose other than that approved by the Board, the said loan shall at the option of the Board become forthwith payable in full.

In case of sale.

(10) It shall be a term of any mortgage taken as security for a loan that upon the sale of the farm land mortgaged the loan shall at the option of the Board immediately become due and payable.

When loans available.

8. Loans under the provisions of this Act shall not be made in any province of Canada until notice of intention

After "to provide for the expenses of operation" the words "not exceeding one per cent of the amount of the loan" have been struck out.

(8) After "any borrower may at any time" the words "after his loan has been outstanding for five years" have been struck out.

to commence the making of loans in that province has been given by the Board in the *Canada Gazette*, provided that the Board shall not give such notice until the legislature of such province shall, by enactment, authorize, prescribe or provide:—

Subscription by the province.

(1) The subscription by the government of the province to the capital stock of the Board to the extent of five per cent of the total loans outstanding at any time in that province as such loans are issued;

Provincial boards.

(2) The establishment of a provincial board of four members to act as agent for the Board in the province, three of whom shall be nominated by the government of the province and appointed by and subject to the approval of the Board. The other member shall be nominated by the borrowers resident in the province and shall be appointed by the Board in accordance with regulations to be made by the Board as hereinafter provided: Provided, however, that until such time as in the judgment of the Board such nomination by the borrowers is practicable the members of the Provincial Board nominated by the Government of the Province may exercise all the functions of the Provincial Board.

How loans made.

(3) Subject to the approval of the Board whether loans shall be made directly to farmers or through local co-operative societies, or both directly to farmers and through local co-operative societies, as the province may desire.

Provincial treasurer.

(4) The treasurer of the said province and the chief executive officer of the provincial board to act on the Advisory Council hereinafter provided for.

Bonds to be legal investment.

(5) That farm loan bonds shall be a legal investment for trust funds within the province.

Relief of provincial board.

(6) That in case of an adverse report on the operations of any provincial board by the auditors of the Board, or should any provincial board refuse to enforce in a satisfactory manner the regulations and directions of the Board, the Board may after conference with the said provincial board relieve such provincial board of its duties and may undertake directly, or through officials appointed by the Board for that purpose, the management of the business of such provincial board until a new provincial board satisfactory to the Board has been nominated and appointed as hereinbefore provided for.

Reserve fund.

9. (1) The Board shall annually carry to a reserve fund twenty-five per cent of the net earnings of the Board until the said reserve shall equal twenty-five per cent of the paid capital stock of the Board, and thereafter there shall be carried to the reserve fund at least ten per cent of the net earnings.

8. (2) "four members" has been substituted for "five members".

Dividend.

(2) A dividend may be declared annually on the capital stock of the Board when in the judgment of the Board the net earnings of the Board warrant such payment: provided, however, that no dividend greater than five per cent shall be declared until the reserve fund shall have reached the amount of twenty-five per cent of the paid capital stock.

Additional dividend.

(3) After the reserves held by the Board shall have reached the amount stated in the next preceding subsection, should the net income of the Board in any year exceed the amount necessary to meet the requirements of subsection one of this section with regard to further reserve and to pay a dividend of five per cent on the capital stock of the Board, the Board may declare an additional dividend upon the stock held by borrowers.

Accumulated dividends.

(4) All dividends paid upon stock held by any borrower shall remain in possession of the Board and shall be allowed to accumulate at the rate of five per cent per annum compounded annually until such time as the said stock with accumulated dividends is sufficient to provide for the payment of all indebtedness under the loan when the amount of the said stock and the accumulated dividends shall be credited to the borrower as a final payment. The borrower shall thereupon cease to be a stock-holder of the Board.

(5) If as a result of proceedings under any mortgage the title to the property securing such mortgage is transferred to the Board, the stock held by the borrower in the Board shall be cancelled and the amount paid thereon by the borrower shall be forfeited to the Board.

If adverse report.

10. In case of an adverse report on the operations of any provincial board by the auditors appointed by the Board, or should any provincial board refuse to enforce in a satisfactory manner the regulations and directions of the Board, the Board may, after conference with the provincial board, relieve such provincial board of its duties and may undertake directly, or by officials appointed by the Board for that purpose, the management of the business theretofore conducted by such provincial board until a new provincial board satisfactory to the Board has been nominated and appointed as hereinbefore provided for.

Advisory Council.

11. There shall be an Advisory Council to the Board consisting of the provincial treasurer of each province of Canada in which a provincial board is organized as hereinbefore provided, and the chief executive officer of each provincial board. This Advisory Council shall meet at least once a year on the call of the minister to discuss the general policy of the Board and the credit requirements of farmers.

Legislation prejudicially affecting security.

12. In the event of legislation being passed by the legislature of any province operating under this Act after loans have been made available in that province which, in the opinion of the Board, would prejudicially affect the security of existing or future loans, the Board, by notice to be published in the "Canada Gazette", may cease to make further loans in that province.

Cost of administration of provincial board.

13. The cost of administration of any provincial board shall be a charge against the provision made for expenses of operation under subsection five of section seven of this Act. The salaries paid to all officers and employees of any provincial board shall be fixed by the Board.

New Clause "A".

An audit of the books of the Board and of each Provincial Board shall be made in accordance with regulations made under the provisions of section sixteen of this Act by a firm of chartered accountants appointed for that purpose by the Governor in Council, and a copy of the report of the said accountants on the annual statement of the Board shall be laid before Parliament by the Minister within the first fifteen days of the first session thereof following the date of the said report.

New Clause "B".

(1) Notwithstanding anything contained in this Act the operations of the Board in virtue thereof shall be conducted in such a manner as to give, as far as practicable, to the shareholders in each province the full benefit of the operations in such province.

(2) The word "shareholders" in this section shall mean the holders of shares of the Board subscribed by the provinces, respectively, by the borrowers in such provinces and by the Government of Canada as provided in paragraph (2) of section five of this Act.

New Clause "C".

Except as may be otherwise decided from time to time by the Governor in Council all actions and decisions of the Board shall be deemed within its powers and shall be conclusive against all interested parties.

13. "fixed by" is substituted for "subject to the approval of".

Investment by Canadian companies. 1917, c. 29.

14. (1) Notwithstanding anything contained in *The Insurance Act, 1917*, any Canadian company as defined in the said Act, may invest its funds or any portion thereof, in the purchase of Farm Loan bonds, and any British company and any foreign company, as therein defined, may hold the said bonds as assets in Canada for the purposes of the said Act.

Investment by loan companies. 1914, c. 40.

(2) Notwithstanding anything contained in *The Loan Companies Act, 1914*, any loan company subject to the provisions of the said Act, or any of them, may invest its funds, or any portion thereof, in the purchase of Farm Loan bonds.

Investment by trust companies. 1914, c. 55.

(3) Notwithstanding anything contained in *The Trust Companies Act, 1914*, any trust company subject to the provisions of the said Act, or any of them, may invest its funds or any portion thereof in the purchase of Farm Loan bonds.

Purchase of bonds by minister.

15. The Minister may purchase from time to time, on behalf of the Dominion of Canada, from the Board, bonds issued by the Board, which bonds shall be repurchased by the Board at the price originally paid therefor when funds for that purpose become available through the public sale of Farm Loan bonds; provided, however, that the amount of such bonds held at any one time by the minister on behalf of the Dominion of Canada shall not exceed fifteen million dollars.

Regulations.

16. The Board may, subject to the approval of the Governor in Council, make regulations not inconsistent with the provisions of this Act for the conduct of the business of the Board, and without limiting the generality of the foregoing provision the Board shall have power to provide by regulation for:

(a) The employment of officers, appraisers, inspectors, attorneys, clerks and other employees, their remuneration and their duties;

(b) The charges to be made against borrowers for the expenses of appraisal, determination of title and recording;

(c) The bases of valuation of farm land;

(d) The form of application for loans, farm loan bonds, mortgages, books of account and annual statements of the Board;

(e) The manner of nomination and appointment of representatives of the borrowers on the provincial board in any province;

(f) The manner of crediting advance payments by borrowers under the mortgages;

(g) The auditing and inspection of the accounts and assets of the Board;

(h) The bonding of agents, officers and employees of the Board;

(i) The signing of cheques, transfers, assignments, discharges, deeds, bonds and other instruments of the Board.

Payments out of the Consolidated Revenue Fund.

17. The amount of any payment by the Government of Canada on account of capital of the Board or as payment for Farm Loan bonds purchased shall be paid out of the Consolidated Revenue Fund on the authority of the Governor in Council.